

Role of Government and Banks in the Development of Micro, Small, and Medium Enterprises (MSME'S)

Ms. Harpreet Kaur

Asst. Prof. In Commerce Department, Khalsa College for Women, Sidhwan Khurd

ABSTRACT

MSME'S are the main part of India's manufacturing enterprises. MSME provide the employment at large scale to the unemployed youth of India as well as it also Contribute towards GDP. India presently has more than 3 crore small and medium enterprises, according to the latest data. This sector is the 2nd largest employer in India. This paper is focuses on the role played by Government and Banks for the development of MSME'S in India. The parliament of India has enacted the MSME Development Act,2006, to facilitate the promotion and development of MSME and to enhance the competitiveness of MSME'S. Banks with collaboration of Government and separately design the policies and schemes for MSME development. National Manufacturing Competitiveness program, Rajiv Gandhi Udaymi mitra yojana, Public Procurement policy, cluster Banking and credit guarantee scheme are some examples of Initiatives undertaken by Government and Banks for the development of MSME'S. By taking the benefit of the various schemes, MSME putting step toward development. Now, MSME enjoy the easy loan facility from Public Sector Banks at favorable Interest rates to meet there working capital requirement.

Keywords: MSME, development, banks, financial institutions, guarantee, scheme.

INTRODUCTION

Schemes introduced by government of India and various financial institutions to assist the MSME's for the smooth running of their business.

1. SMILE

SMILE was launched during the FY 2015-16 as an INR 10,000 crore fund by SIDBI, in line with the GoI's ambitious 'Make in India' initiative. The target sectors under SMILE include all the identified 25 Make in India sectors as indicated by the GoI for the Make in India Programme.

Objective: The objective of the scheme is to offer soft loans in the nature of quasi-equity so as to meet the required debt-equity ratio to facilitate the term loan on relatively soft terms for MSME's. Loans extended under the scheme cannot be used for repayment of earlier loans.

Eligible Enterprises: New / Existing enterprises in the manufacturing as well as service sector undertaking expansion, to take advantage of new emerging opportunities, as also undertaking modernization, technology upgradation or other projects for growing their business will also be covered. The applicant must achieve minimum internal investment grade rating of SIDBI.

Minimum Loan Size- Rs. 25 lakh[1]

2.Credit Guarantee Fund Scheme for Micro and Small Enterprises

Of all the problems faced by the MSEs, non-availability of timely and adequate credit at reasonable interest rate is one of the most important. One of the major causes for low availability of bank finance to this sector is the high risk perception of the banks in lending to MSEs and consequent insistence on collaterals which are not easily available with

these enterprises. The problem is more serious for micro enterprises requiring small loans and the first generation entrepreneurs.

The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGS) was launched by the Government of India (GoI) to make available collateral-free credit to the micro and small enterprise sector. Both the existing and the new enterprises are eligible to be covered under the scheme. The Ministry of Micro, Small and Medium Enterprises, GoI and Small Industries Development Bank of India (SIDBI), established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement the Credit Guarantee Fund Scheme for Micro and Small Enterprises. The scheme was formally launched on August 30, 2000. The corpus of CGTMSE is being contributed by the GoI and SIDBI in the ratio of 4:1 respectively and has contributed Rs. 2477.78 crore to the corpus of the Trust up to May 31, 2016. As announced in the Package for MSEs, the corpus was to be raised to Rs.2500 crore by the end of 11th Plan.

Eligible Lending Institutions

The Banks / Financial Institutions, which are eligible under the scheme, are scheduled commercial banks (Public Sector Banks/Private Sector Banks/Foreign Banks) and select Regional Rural Banks (which have been classified under 'Sustainable Viable' category by NABARD). As on May 31, 2016, there were 133 eligible Lending Institutions registered as MLIs of the Trust, comprising of 26 Public Sector Banks, 21 Private Sector Banks, 73 Regional Rural Banks (RRBs), 4 Foreign Banks and 9 other institutions i.e. Delhi Financial Corporation, Kerala Financial Corporation, Jammu & Kashmir Development Finance Corporation Ltd, Andhra Pradesh State Financial Corporation, Export Import Bank of India, The Tamil Nadu Industrial Investment Corporation Ltd., National Small Industries Corporation (NSIC), North Eastern Development Finance Corporation (NEDFI) and Small Industries Development Bank of India (SIDBI).[2]

Eligible Credit Facility

The credit facilities which are eligible to be covered under the scheme are both term loans and/or working capital facility up to Rs.100 lakh per borrowing unit, extended without any collateral security and / or third party guarantee, to a new or existing micro and small enterprise. For those units covered under the guarantee scheme, which may become sick owing to factors beyond the control of management, rehabilitation assistance extended by the lender could also be covered under the guarantee scheme. Any credit facility in respect of which risks are additionally covered under a scheme, operated by Government or other agencies, will not be eligible for coverage under the scheme.

Guarantee Cover

The guarantee cover available under the scheme is to the extent of maximum 85% of the sanctioned amount of the credit facility. The guarantee cover provided is up to 75% of the credit facility up to Rs.50 lakh (85% for loans up to Rs. 5 lakh provided to micro enterprises, 80% for MSEs owned/ operated by women and all loans to NER including Sikkim) with a uniform guarantee at 50% for the entire amount if the credit exposure is above Rs.50 lakh and up to Rs.100 lakh. In case of default, Trust settles the claim up to 75% (or 85% / 80% / 50% wherever applicable) of the amount in default of the credit facility extended by the lending institution. For this purpose the amount in default is reckoned as the principal amount outstanding in the account of the borrower, in respect of term loan, and amount of outstanding working capital facilities, including interest, as on the date of the account turning Non-Performing Asset (NPA).

Tenure of Guarantee

The Guarantee cover under the scheme is for the agreed tenure of the term loan/composite credit. In case of working capital, the guarantee cover is of 5 years or block of 5 years.

Operational Highlights of CGTMSE

As on May 31, 2016, cumulatively 24,31,490 proposals from micro and small enterprises have been approved for guarantee cover for aggregate credit of Rs.1,13,500.61 crore, extended by 119 active MLIs. A year-wise guarantee approved growth position is indicated in the table below:

Period	No. of Active MLIs	No. of Credit Facilities Approved	Amount of Guarantees (Rs. Crore)	Approved	Cumulative Guarantees Approved (Rs. Crore)
FY 2000-01	9	951	6.06		6.06
FY 2001-02	16	2296	29.52		35.58
FY 2002-03	22	4955	58.67		94.25
FY 2003-04	29	6603	117.60		211.85
FY 2004-05	32	8451	267.46		538.62
FY 2005-06	36	16284	461.91		1000.53
FY 2006-07	40	27457	704.53		1705.06
FY 2007-08	47	30285	1055.84		2701.59
FY 2008-09	57	53708	2199.40		4824.34
FY 2009-10	85	151387	6875.11		11559.61
FY 2010-11	106	254000	12589.22		23846.01
FY 2011-12	109	243981	13783.98		37139.31
FY 2012-13	117	288537	16062.48		52600.07
FY 2013-14	117	348475	18188.12		70026.28
FY 2014-15	119	403422	21274.82		90445.90
FY 2015-16	119	513978	19949.38		108990.85
FY 2016-17 *	119	106634	4037.07		113500.61

*As up to 31 May 2016.[3]

3. Credit Linked Capital Subsidy Scheme for Technology Upgradation

Technology up-gradation would ordinarily mean induction of state of-the-art or near state-of-the-art technology. In varying mosaic of technology obtaining in more than 7,500 products in Indian small scale sector, technology up-gradation would mean a significant step up from present technology level to a substantially higher one involving improved productivity, and/or improvement in quality of products and/or improved environmental conditions including work environment for the unit. It includes installation of improved packaging techniques as well as anti-pollution measures and energy conservation machinery. Further, units in need of introducing facilities for in house testing and on-line quality control would qualify for assistance, as the same is a case of technology up-gradation. Replacement of existing equipment/technology with Same equipment/technology will not qualify for subsidy under this scheme, nor would scheme be applicable to units up grading with second hand machinery.

4. Micro Finance Programme

Government launched a Scheme of Micro Finance Programme and tied up with existing programme of SIDBI by way of contributing towards security deposits required from the MFIs/NGOs to get loan from SIDBI. The scheme is being operated in underserved States and underserved pockets/districts of other States. [4]

5. MSME Market Development Assistance (MDA)

As part of comprehensive policy package for MSMEs, MSME-MDA scheme has been announced with a view to increase participation of representatives of participating units, the provision of MSME MDA scheme has been modified recently.

MDA is offered in three forms as mentioned below:

Participation in the international exhibitions/fairs-

For registered small & micro manufacturing enterprises with DI/DIC. Financial assistance for using Global Standards (GS1) in barcoding-Recognised importance of barcoding and avail financial assistance through Office of DC(MSME). Purchase and Price Preference Policy-This is administered Through Single Point Registration Scheme of NSIC. Under this, 358 items are reserved for exclusive purchase from MSME by Central Government. Other facilities include tender documents free of cost, exemption from earnest money and security deposit and 15% price preference in Central Government purchases -for individual MSMEs.

6. NSIC (National Small Industries Corporation) Schemes

6(1). Performance and Credit Rating Scheme

- An independent, trusted third party opinion on capabilities and credit-worthiness of SSIs
- Availability of credit at attractive interest
- Recognition in global trade
- Prompt sanctions of credit from banks and financial institutions

- Subsidized rating fee structure for SSIs
- Facilitate vendors/buyers in capability and capacity assessment of SSIs
- Enable SSIs to ascertain the strengths and weaknesses of their existing operations and take corrective measures.

Salient features

- A combination of credit and performance factors including operations, finance, business and management risk
- Uniform rating scale for all empanelled rating agencies.
- SSIs have the liberty to choose among the empanelled Rating Agencies.
- Turn-over based fee structure
- Partial reimbursement of rating fee through NSIC. [5]

6(2). Bank Credit Facilitation Scheme

To meet the credit requirements of MSME units NSIC has entered into a Memorandum of Understanding with various nationalised and private sector banks. Through syndication with these banks, NSIC arranges for credit support (fund or non-fund based limits) from banks without any cost to MSMEs. Furthermore, MSMEs can upgrade their competence in Terms of business and technologies by getting rated through independent, renowned and professional rating agencies empanelled with NSIC.

MSE's which get rated under NSIC-Performance and Credit Rating Scheme not only has a liberty to get rated from any one of rating agencies of its preference but it also invariably increases their creditability in business and help them in getting timely credit from banks at liberal rates of interest.

6(3). Single Point Registration

Government is single largest buyer of a variety of goods. With a view to increase share of purchases from small-scale sector, Government Stores Purchase Programme was launched. NSIC registers Micro & Small Enterprises(MSEs) under Single Point Registration scheme (SPRS) for participation in Government purchases.

6(4). Infomediary Services

Information is becoming almost vital. With increase in competition and melting away of international boundaries, demand for information is reaching new heights. NSIC is offering Infomediary Services which is a one-stop, One-Window bouquet of aids that will provide information on business, technology and finance, and also exhibit core competence of Indian SMEs.

The corporation is offering services through its MSME Global Mart www.msmemart.com; which is a Business to Business (B2B) and Business to Customer (B2C) Compliant web portal. Services are available through annual membership.

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