

A STUDY ON ROLE OF RBI IN DRIVING GROWTH OF MSME'S IN INDIA

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ABSTRACT

MSME sector is considered as the backbone of Indian economy as it Subsidizes towards country's GDP about 8 /100 part, manufacturing output almost 45/100 part and country's exports just about 40/100 part. It has also contributed in the advancement of progress and development of khadi village and coir industries. Micro small and medium enterprises not only provides employment possibilities but also works towards the evolution of nations backward and rural areas, impartial dispersal of national income, stabilized and extended growth in India. If we take a look on the growth of MSME'S in India, role played by RBI is quite remarkable. RBI performs a pivotal contribution in the expansion and progress of MSME sector. This paper closely scans the heights of Indian MSME'S. The other part put a glance on the present plot contribution of RBI in overall advancement of MSME'S across the nation.

Keywords: MSME'S, RBI, Opportunities, RBI Initiatives.

Introduction

MSME stands for micro, small and medium enterprise (MSME) introduced by regime of India in accordance with the micro, small and medium enterprises development (MSMED) Act, 2006 are bodies which are occupied in making, producing, purifying or conservation of articles. There are around 29.8 million enterprises in various industries employing around 69 million people. As for the government's annual report 2018-19, there are 6,08,41,245 MSMEs which are working in India. MSMEs produce and manufacture an ample collection of commodities for national as well as cosmopolitan markets.

New MSME Classification

The dissimilarities between the manufacturing and service enterprises has been eliminated by making the investment amount and annual turnover similar for enterprises occupied in both the sectors.

MSME- Merged Criteria:- Investment and Annual Turnover

Sector/Enterprise Type	Micro Enterprise	Small Enterprise	Medium Enterprise
Manufacturing & Service sector, Both	Investment less than rupees 1 crore, turnover upto rupees 5 crore	Investment less than rupees 10 crore, turnover upto rs.50 crore	Investment less than Rs.50 crore, turnover upto Rs.250 crore

Basic takeaways of new MSME definition introduced in 'Atam Nirbhar Bharat Abhiyan' of self-reliant India scheme 2020 by Government of India.

Some of the entities that perform down the ministry of MSMEs:-

- A scheme for promotion of innovation, rural industries and entrepreneurship (ASPIRE)
- Khadi and village industries Commission (KVIC)

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- National small industries corporation(NSIC)
- Scheme Of fund for regeneration of Traditional Industries(SFURTI)
- Mahatma Gandhi institute for Rural Industrialization(MGIRI)
- National Institute for micro, small and medium enterprises(NIMSME)

Major Objectives of the Study

- To scan the importance of MSMEs in Indian economy.
- To analyze the role of RBI in driving expansion of MSMEs in India.
- To examine the Various threats encountered by MSMEs.

Research Methodology

The facts and figures for the study has been collected from secondary sources. The data collection includes (1)Annual reports of MSMEs(2) RBI annual reports (3)Ministry of MSME'S releases (4)Newspaper and Magazine(5)Research paper (6)Different websites relevant to topics.

Contribution of MSMEs in Indian Economy

MSMEs have been donating remarkably to the advancement of entrepreneurial base through business innovations. It has provided scope for regional development and abolishing balance. International MSMEs are considered as development engine for economy. Government has announced national manufacturing policy for raising the share of manufacturing to 25% of total GDP by 2022.

As per the latest data available with central statistics office, ministry of statistics and program implementation (MOSPI), the contribution of MSME sector in the country's GVA and , at current prices for the last five years is given.

Share of Gross Value Added (GVA) of MSME in all India GDP

Figures in ₹ Crores adjusted for FISIM at Current Prices

Year	Total MSME. GVA	Growth in percentage	Total GVA	Share of MSME in GVA(/)	All india GDP	Share of MSME in All India GDP(/)
2014-15	3658196	-	11504279	31.80	12467959	29.34
2015-16	4059660	10.97	12574499	32.28	13771874	29.48
2016-17	4502129	10.90	13965200	32.24	15391669	29.25
2017-18	5086493	12.98	15513122	32.79	17098304	29.75
2018-19	5741765	12.88	17139962	33.50	18971237	30.27

Source: Central Statistics Office (CSO), Ministry of Statistics and programme implementation.

Threats Encountered by MSME sector at present:-Despite the MSME sector donating remarkably to the economy, it continues to face several impediments. There is a vast space between credit supply and demand by the sector. Except red it there are other factors also which are holding back the growth of this sector from achieving their full potential. Some of threats faced by this sector are as follows.

• Lack of Access to Working Capital

A wide- ranging MSMEs require regular working capital to stay stable. But the ticket size of the loans they require are normally small, ranging from ₹ 50,000 to ₹ 1.00.000. According to a report by IFC (International Finance Corporation) India's formal banking system can only provide about ₹ 11 Lakh crore of the credit, which is less than 1/3 of the demand from the sector. With low to minimal Savings backing them up in such a complex business environment, a lot of MSMEs are not available to survive their operations.

• Infrastructure Bottlenecks and Competition

If we take a look on worldwide trade, the old age methods of operating business with inferior technology adoption dispossessed them of future economies of scale. And increasing competition is also a big question mark in front of MSMEs. The continuous entry of private players in the market is taking the competition to another level.

• Delayed Payments

Around 44% of MSMEs engaged in manufacturing activities faced delay in payments according to a survey conducted by RBI in December 2019 most of MSMEs are helping units serving the needs of large industries public as well as private sector. They also often encounter the impediments related to delayed payments.

- **Marketing and Managerial Related Issues**

The lack of managerial, entrepreneurial and marketing skills, lack of education, knowledge of markets trends, consumer preferences has also acted as a hurdle in the advancement of this sector. As a supply chains that supported its operations got disturbed due to COVID-19 pandemic early this year. This becomes a big hurdle in the pathway of MSMEs.

- **Lack of Skilled Manpower**

Apart from labour problems, businesses also need to emphasize on skill development and training programme to facilitate both urban and rural micro entrepreneurs. The non-availability of skilled labour force is the major constraint of MSME sectors.

- **High Cost of Credit**

One more challenge that is encountered by this sector is inability to access sufficient and timely credit at a rational cost. There is a high risk perception in the mind of bankers regarding this sector while sanctioning loans.

RBI Initiatives in the development of MSME'S in India

- **RBI announces incentive for lending to MSME's home and auto sectors:** This move will motivate lending towards these targeted sectors. Observing the significance of MSMEs in Indian economy, a one time restructuring of loans to MSMEs that were in default but 'standard' as on January 1, 2019 was permitted without an asset classification downgrade. The restructuring of the borrower account was to be implemented by March 31, 2020. This scheme has provided reassurance to a large number of MSMEs.
- **RBI Measures to Support MSME Credit:** In February 2018, RBI also announced to remove the credit gap for loans between rupees 50 million and rupees 100 million for MSMEs service sector borrowers for consideration under priority sector. This is the best initiative of RBI to support MSME Credit in india.
- **Credit to MSME Entrepreneurs:** RBI has taken number of steps to support MSME entrepreneurs. RBI has allowed to the scheduled commercial banks to deduct the amount equal to credit disbursed to new MSME borrowers from their net demand and the time liability(NDTL) for the purpose of calculating CRR. and this exemption will be available only to only up to rupees 25,00,000 per borrower for a period of 1 year from the date of origination of loan or the tenure of loan whichever is earlier
- **RBI allows Loan Restructuring for Individuals, MSMEs hit by fresh COVID-19 Wave:** Reserve Bank declared a number of measures to the individual and small businesses which are haunted hard by fresh COVID-19 pandemic. Under the present structures loans up to rupees 10 Lakh will be considered as priority sector lending to MSMEs.
- **Trade Receivables Discounting System:** The trade receivables discounting system (Treads) conceived by The RBI in 2014 is an electronic platform on which receivables of MSMEs drawn against buyers are financed by multiple financiers through a competitive auction process. TReDS licensed by RBI have been handling the programme for more than three years.

Progress in MSME financing through TReDS

(Invoices in number, amount in crore)

Financial Year	Invoices Uploaded	Invoices Amount	Invoices financed	Invoices Amount
2017-18	22,704	1,094.82	19,890	14.54
2018-19	2,51,695	6,699.57	2,32,098	854.48
2019-20	5,30,077	13,088.27	4,77,969	11,165.86

- **Credit to Micro Small and Medium Enterprises (MSMEs):** The number of merchants and credit growth decelerated across PVBs and PSBs in 2019-20. PSB's share in total credit to MSMEs is 55% in 2019 -20. Although the number of accounts with PUBs was more than double that with PSB's in 2019 -20.

Credit Flow to the MSME sector by SCBs

(Number of accounts in lakh, amount Outstanding in ₹.crore)

		2016-17	2017-18	1018-19	2019-20
Public Sector Banks	No.of Accounts	111.97 (4.8)	111.01 (-0.9)	112.97 (1.8)	110.82 (-1.9)
	Amount Outstanding	8,28,933 (1.0)	8,64,598 (4.3)	8,80,033 (1.8)	8,93,315 (1.5)
Private Sector Banks	No. Of Accounts	119.59 (24.0)	148.33 (24.0)	205.31 (38.4)	270.62 (31.8)
	Amount Outstanding	4,30,963 (20.0)	4,10,760 (-4.7)	5,63,678 (37.2)	6,46,988 (14.8)
Foreign Banks	No of Accounts	2.07 (11.1)	2.20 (6.2)	2.40 (9.3)	2.74 (14.1)
	Amount Outstanding	36,503 (0.4)	48,881 (33.9)	66,939 (36.9)	73,279 (9.47)
All SCBs	No. Of Accounts	233.63. (13.9)	261.54 (12.0)	320.68 (22.6)	384.18 (19.8)
	Amount Outstanding	12,96,399 (6.6)	13,24,239 (2.2)	15,10,651 (14.1)	16,13,582 (6.8)

Source: RBI

Conclusion

Micro, Small and Medium enterprises form a crucial element of the economy. However MSMEs continue to face challenges of formalization, access to timely and adequate finance, knowledge services etc. A number of measures have been taken time to time by the government and RBI to support this sector. Reserve Bank of India constituted the present expert committee on MSMEs to undertake a comprehensive review of the sector and to identify causes and propose long term solutions, for their economic and financial sustainability. So banks and financial institutions should take pride while serving MSMEs as they are playing key role formation of such corporates. In Future, MSME of today will contribute a large share in strengthening the Indian economy.

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