ROLE OF FINANCIAL INSTITUTION IN MANAGING SUSTAINABLE GROWTH IN MSMEs

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Abstract

Micro Small and Medium Enterprises (MSMEs) is the major contributor for the growth of the economy. It has given a platform for the new entrepreneurs to set up their enterprise across the globe from the assistance of various financial institutions and plays a significant role in the overall development of the economy. It has generated many employment opportunities and even contributes for the rural and regional development and demolishing imbalances. It has given a broader scope for industrialization where government intervene by providing various assistances like grants, subsidies, removal of restrictions and even promoting the enterprises. 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. Financial institutions have also played a predominant role in the overall development and acts as a support system to bring MSMEs into light. The aim of carrying out this research is to know the credit provisions on the growth and also to find the relationship that exist between the large scale, medium and other cottage industries.

Key words: Growth, Financial Institutions, Government and Credit Provisions
INTRODUCTION

The MSME development Act 2006 came into being with effect from 2\textsuperscript{nd} October 2006, subsequent to which, the Central Government took effective measures towards implementation of the Act. In order to increase the competitive edge of the MSMEs the multinational corporations (MNCs), the Government of India announced the National Manufacturing Competitiveness Programme (NMCP) during the budget speech 2005-06. One of the objectives of NMCP is to ensure healthy growth of the MSME sector. Under the National Manufacturing Competitiveness Programme (NMCP), five components have been made operational, which include quality management systems and quality technology tools, building awareness in intellectual property rights, support for entrepreneurial and managerial development through incubators, setting up of new mini tools rooms and marketing.

In India, micro, small and medium enterprises as per the MSME Development Act, 2006 are defined based on their investment in plant and machinery(for manufacturing enterprise) and on equipment for enterprises providing or rendering services.

According to the Ministry of Micro, Small and Medium Enterprises, recent ceilings on investment for enterprises to be classified as micro, small and medium enterprises are as follows:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Manufacturing Enterprises</th>
<th>Service Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Rs. 25 lakh</td>
<td>Rs. 10 lakh</td>
</tr>
<tr>
<td>Small</td>
<td>Rs. 5 crore</td>
<td>Rs. 2 crore</td>
</tr>
<tr>
<td>Medium</td>
<td>Rs. 10 crore</td>
<td>Rs 5 crore</td>
</tr>
</tbody>
</table>

The organization which is associated with micro, small and medium enterprises:

SFC (State Financial Corporation)

SFC Act came into existence to fulfill the financial needs of the entrepreneurs. According to the SFC Act loans are extended to the industrial units which are engaged in the areas of manufacturing, processed foods, mining, hotel industry, repairing and assembly of any type of machinery and vehicles for the passengers and goods transport by road or by sea.

STATEMENT OF THE PROBLEM

Small scale units have to face several difficulties in the marketing and distribution of their products. Most of them do not have their own marketing network. They find it difficult to sell their output at remunerative prices due to higher cost of production and non-standardized quality of products. They cannot afford to spend much on advertising, sales, promotion, marketing research etc. They have to sell their products at cheaper prices due to weak bargaining power and immediate need for money. They also face stiff competition from large firms.
OBJECTIVES

- To analyse the growth of MSME to the Indian economy.
- To analyse the role of SFC in promotion of MSME Entrepreneurs
- To analyse the schemes of SFC with respect to credit flow.

METHODOLOGY

The study is based on secondary data by taking the growth of MSME and as well as MSME annual reports and SFC annual reports. Extensive review of literature provided the schemes available for the entrepreneurs in starting up their business.

DATA ANALYSIS AND INTERPRETATION

Table showing Contribution of MSMEs to the Indian Economy

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>2001-02</td>
<td>105.12</td>
<td>249.33</td>
<td>154349.00</td>
<td>282270.00</td>
</tr>
<tr>
<td>2.</td>
<td>2002-03</td>
<td>109.49</td>
<td>260.21</td>
<td>162317.00</td>
<td>314850.00</td>
</tr>
<tr>
<td>3.</td>
<td>2003-04</td>
<td>113.95</td>
<td>271.42</td>
<td>170219.00</td>
<td>364547.00</td>
</tr>
<tr>
<td>4.</td>
<td>2004-05</td>
<td>118.59</td>
<td>282.57</td>
<td>178699.00</td>
<td>429796.00</td>
</tr>
<tr>
<td>5.</td>
<td>2005-06</td>
<td>123.42</td>
<td>294.91</td>
<td>188113.00</td>
<td>188113.00</td>
</tr>
<tr>
<td>6.</td>
<td>2006-07</td>
<td>361.76</td>
<td>805.23</td>
<td>868543.79</td>
<td>1198818.00</td>
</tr>
<tr>
<td>7.</td>
<td>2007-08</td>
<td>377.37</td>
<td>842.23</td>
<td>920459.84</td>
<td>1322777.00</td>
</tr>
<tr>
<td>8.</td>
<td>2008-09</td>
<td>393.70</td>
<td>881.14</td>
<td>977114.72</td>
<td>1375589.00</td>
</tr>
<tr>
<td>9.</td>
<td>2009-10</td>
<td>410.82</td>
<td>922.19</td>
<td>1038546.08</td>
<td>1488352.00</td>
</tr>
<tr>
<td>10.</td>
<td>2010-11</td>
<td>428.77</td>
<td>965.69</td>
<td>1105934.04</td>
<td>1653622.00</td>
</tr>
<tr>
<td>11.</td>
<td>2011-12</td>
<td>447.73</td>
<td>1012.59</td>
<td>1183332.00</td>
<td>1788584.00</td>
</tr>
<tr>
<td>12.</td>
<td>2012-13</td>
<td>467.56</td>
<td>1061.52</td>
<td>1269338.02</td>
<td>1809976.00</td>
</tr>
<tr>
<td>13.</td>
<td>2013-14</td>
<td>488.46</td>
<td>1114.29</td>
<td>1363700.54</td>
<td>1944938.00</td>
</tr>
</tbody>
</table>

Source: MSME Annual Reports
Graph showing the total working enterprise (in lakh)

Interpretation:

- It displays the increase in number of units from 105.21 lakh in 2001-02 to 488.46 lakh in 2013-14, reflecting an increase of 383.25 lakh over the last 13 years. The MSME sector has shown an increase in numbers which is associated with the various schemes offered by government to promote young budding entrepreneurs in MSME sector.
- It shows the increase in total number of employments in MSME sector as increased from 249.33 in 2001-02 to 1114.29 lakh in 2013-14 reflecting 864.96 lakh over the last 13 years. The sector has shown increase in employment by concentrating both rural as well as urban. MSME sector is the major source of employment to our country.
- The market value of fixed assets has been increased from 2001-02 by Rs. 154349.00 crore to Rs. 1363700.54 crore in 2013-14 reflecting an increase of 1209351.54 crore over the last 13 years. The MSME sector from the previous decades were not using more of updated technology to manufacture the product but at present the technology has been upgraded because of the initiatives taken by the government in sponsoring more of schemes to help even the rural public by starting their own enterprise.
- The gross output of the MSME sector has increased from the year 2001-02 282270.00 crore to 1944938.00 in 2013-14 reflecting the increase of Rs. 1662668 crore over the last 13 years. This increase has been resulted in increase in the export orientation of some of the companies of MSME.

2. The role of State Financial Corporation in promotion of MSME Entrepreneurs

SFC plays a key role in the development of the Indian economy by providing employment opportunities to thousands of population in the country. SFC concentrates not only to urban area, small towns and villages. SFC is entering in several new activities in the MSME sector.

State financial corporation has been continuously involved in financing the MSME sector since its inception. SFC has setup more than 25000 micro enterprises in rural area by providing more than lakhs of job. SFC supports more for skill development programme rural women entrepreneur.

In the budget government of India has announced a special refinance support for entrepreneurs to start up the business by providing awareness programme, counseling centers, testing facilities, business
information by measuring the efficiency of the entrepreneurs to provide job opportunities to the entrepreneurs and as well as government has taken the initiatives to do marketing activities on behalf of the entrepreneurs.

State Financial Corporation has provided a significant growth to the economy by increasing the gross domestic product level.

**State Financial Corporation has provided a holistic development of the MSME.**

(Rs. In Crores)

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Gross Sanction Number</th>
<th>Gross Sanction Amount</th>
<th>Disbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>1195</td>
<td>368.15</td>
<td>303.13</td>
</tr>
<tr>
<td>2008-09</td>
<td>1420</td>
<td>565.24</td>
<td>383.92</td>
</tr>
<tr>
<td>2009-10</td>
<td>1461</td>
<td>631.49</td>
<td>434.39</td>
</tr>
<tr>
<td>2010-11</td>
<td>1537</td>
<td>731.63</td>
<td>580.41</td>
</tr>
<tr>
<td>2011-12</td>
<td>1485</td>
<td>817.32</td>
<td>597.08</td>
</tr>
<tr>
<td>2012-13</td>
<td>1598</td>
<td>944.06</td>
<td>734.70</td>
</tr>
<tr>
<td>2013-14</td>
<td>1426</td>
<td>909.26</td>
<td>707.47</td>
</tr>
<tr>
<td>2014-15</td>
<td>1092</td>
<td>675.15</td>
<td>553.62</td>
</tr>
</tbody>
</table>

Source: KSFC (Annual Report)

**INTERPRETATION**

- The above table highlights that there is a lot of fluctuations related to gross amount sanctioned to MSME sector for starting up their own business. As the day to day restrictions were increased, collateral security was made compulsory for entrepreneurs to startup their business.

- Most of the MSMEs are facing the problems related to poor record keeping system and undocumented business; this increased the bad debts in the bank so they faced the problem to recover the loans in time.

- The banks to remain profitable need to undergo unwarranted risk by lending their funds to organization by making policy to the stakeholders to focus on alternative financing mechanism in order to reduce the market failure.

3. **Small Medium Enterprise Division Scheme**

- Scheme for providing financial assistance on international cooperation
- Scheme for providing financial assistance for performance and credit rating
- Scheme for providing financial assistance on marketing support under marketing Assistance scheme.
- Scheme for providing establishment of new institutions, strengthening the infrastructure for EDIs
- Scheme for providing financial assistance to set up new enterprise.
- Scheme of fund of regeneration of traditional industry.
• Scheme for promotion of innovation, rural industry and entrepreneurship.
• Schemes for providing insurance cover.
• Scheme for providing financial assistance for R&D activities of coir board under central sector plan scheme of science & technology of the coir board.
• A scheme for providing financial assistance on bar-code an NMCP Scheme
• ISO 9000-ISO14001 certificate reimbursement scheme
• Domestic market promotion scheme
• Trade and industry related functional support services scheme
• Lean manufacturing competitiveness for MSMEs schemes
• Building awareness on intellectual property rights.

CONCLUSION

MSMEs plays a vital role by reducing the poverty by increasing the employment opportunities which contributes to the overall growth of economy. This study further identifies the schemes available for the entrepreneurs to start up their business. The literature review reveals that there is a significance difference in lending practices and recovery of loans from the entrepreneurs. The study reveals that there is a increase in number of entrepreneurs in the economy.

SFCs are playing the major role in developing the MSMEs by providing different schemes and encouraging them to take up the challenges to start the business which in turn contributes to the gross domestic product of the economy. Availability of raw materials is the major challenge faced by the entrepreneurs in all sectors as there is a scarcity of natural resources in the environment wastage of natural resources should be avoided. Updating of new technology is very much needed for the entrepreneurs to survive in the market for long run.

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