

Chapter I
INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) play a vital role in the economic development of a nation. The contribution and share of MSMEs in India’s GDP and employment are significant. In 2014-15, the share of MSME manufacturing in India’s total manufacturing output was 33.4% while the contribution of MSME Manufacturing and MSME Services to Gross Domestic Product (GDP) of India were 6.11 % and 24.63% respectively at 2011-12 prices (Ministry of MSME, Annual Report 2016-17, p.10). The contribution of MSME sector as a whole to India’s GDP was 30.74 % in 2014-15.

MSMEs in India are not defined in terms of the size of employment or value of turnover or value of assets as is mostly done in other countries. The MSMEs in India are defined in terms of investment in plant & machinery (for manufacturing units) or investment in equipment (for service sector units). Accordingly, the current limits for defining micro, small and medium enterprises in India are as under:

Table 1: Current Limits for defining Micro, Small & Medium Enterprises in India			
Sl. No.	Enterprise Category	Manufacturing Sector (Investment limit in Plant & Machinery)	Services Sector (Investment limit in equipment)
1	Micro	Rs. 2.5 million/ Rs. 25 lakh	Rs. 1 million/ Rs. 10 lakh.
2	Small	Rs. 50 million/ Rs. 5 crore	Rs. 20 million/ Rs. 2 crore
3	Medium	Rs. 100 million / Rs. 10 crore	Rs. 50 million/ Rs. 5 crore
<i>Source: MSME at a Glance 2016, Ministry of MSME</i>			

It is important to mention that very recently, a change in the definition of MSMEs in terms of annual turnover was approved by the Union Cabinet. The same will be discussed in detail in Chapter VII.

As per estimates of the Ministry of Micro, Small and Medium Enterprises, there were 512.99 lakh MSME units providing employment to 11.12 crore persons in the country (Ministry of MSME, Annual Report 2016-17, p.11). The Economic Survey 2017-18 citing National Sample Survey (NSS) 73rd round for 2015-16, indicated 633.8 lakh unincorporated non-agricultural MSMEs in the country engaged in different economic activities providing employment to 11.10 crore workers.

Statement of the Problem

MSME units in India are not a homogeneous lot but the challenges faced by them are often common. The major challenges are with regard to availability of adequate and timely credit, limited access to equity capital, access to markets, inadequate infrastructure facilities, lack of skilled manpower, low technology levels as well as lack of access to modern technology (Prime Minister's Task Force on MSMEs, 2010). In addition, the Task Force also identified regulatory issues, taxation issues, and procedural bottlenecks as other non-financial challenges.

The Central government, as well as the State governments, implement schemes and programmes to address the above challenges and issues affecting the MSME sector. The primary responsibility for the promotion of MSME sector rests with the State governments while the Government of India, supplement the efforts of the State governments, through its policies and programmes.

The focus of the present dissertation is on the issue of availability of formal finance for MSMEs and the distribution of funds under major government schemes and the flow of bank credit among States/ UTs in different zones/ regions of the country. A review of available literature including reports of Committees set up by the Government of India / various industry associations indicate that while the inadequate availability of formal finance is a well-researched topic but the issue of inter-state distribution of government funds (under the major schemes of Government of India) has not been explored and needs to be studied. On the other hand, while there are studies on the uneven distribution of bank credit to industry as a whole, however, the disbursement of credit specifically to MSMEs in different States is more relevant and the present study focuses especially on credit disbursement to MSMEs in the States.

Several important schemes of the Government of India are positively impacting the MSMEs. The study will focus on three major schemes – (i) Credit Linked Capital Subsidy Scheme (CLCSS), which is essentially a technology upgradation scheme; (ii) Credit Guarantee Fund Trust for the Micro & Small Enterprises (CGTMSE) scheme which is a credit support scheme; and (iii) Prime Minister’s Mudra Yojana (PMMY), which is a refinance scheme to enable banks/ microfinance institutions to on-lend to micro enterprises. Incidentally, the Economic Survey 2017-18 also highlights these three schemes along with the Prime Minister’s Employment Generation Programme as major schemes for development of the MSME sector. In addition, the flow of bank credit, as the most important source of formal finance to MSME units, will also be studied.

The presence of a large number of sick MSME units across the country is a pointer to the fact that lack of adequate and affordable finance along with other non-financial

constraints are impacting the financial position of MSMEs making it difficult for them to repay principal and interest to banks. This requires exploring new options of financing for MSMEs with suitable support from the Government of India.

Most MSMEs across the globe and particularly in developing economies face similar problems in accessing formal finance. Reports and working papers prepared by several international organisations including the International Finance Corporation (IFC), United Nations Economic & Social Commission for Asia and the Pacific (UNESCAP), Organization for Economic Cooperation and Development (OECD) indicates the gravity of this problem and suggests alternate financing measures. The study will examine these reports to understand the extent of finance gap in other countries along with some important initiatives undertaken in select countries for possible replication in India.

Objectives of the Study

- i. To analyse the distribution of funds under major schemes of Government of India along with the analysis of flow of bank credit to MSME units in States in different regions of the country.
- ii. To explore possible factors behind any uneven distribution of fund and benefits under these schemes and bank credit in different States in India.
- iii. To study the availability of formal finance as a constraint in other countries/ regions of the world and cover initiatives of other countries for possible replication in India.

Rationale/ Justification

The major rationale or justification for undertaking the study is the research gap in exploring the distribution of funds/ benefits under CLCSS, CGTMSE, and PMMY programmes in various States. Any possible uneven distribution of benefits/ funds will have implications for policy initiatives to promote an inequitable growth of the MSME sector in the country. Hence, the study has been undertaken to eliminate the gap in existing literature on the subject and to make an attempt to understand/ assess the possible reasons for any unequal distribution of funds/ benefits across the States/UTs. Although some earlier studies have looked into the uneven distribution of bank credit to the industry, specific focus on credit disbursement to the MSMEs requires examination. The study explores this gap also along with an assessment of factors which may be associated with uneven distribution of credit among the States.

Despite the importance of debt finance as the major source of formal finance for the MSMEs, an understanding of alternative sources of finance particularly those popular in other developing/ developed countries needs to be examined for their usefulness in the Indian context.

Research Questions

- I. What is the pattern of fund flow/ coverage of micro and small units in the States in different regions of the country with regard to the following major schemes of the Government of India:
 - a. Credit Guarantee Fund Trust for Micro & Small Enterprises(CGTMSE) Scheme;

- b. Credit Linked Capital Subsidy Scheme (CLCSS); and
 - c. Pradhan Mantri Mudra Yojana (PMMY).
- II. What is the distribution of bank credit to MSMEs in these States in recent years?
 - III. What could be the possible factors explaining any unequal distribution of funds/benefits/ bank credit flow in the States?
 - IV. How large is the finance gap faced by MSMEs in other developing and developed countries with regard to access to formal finance and whether some of the successful alternate modes of funding adopted in such countries can be replicated in the Indian context?

Limitations/ Delimitations

The major limitation of this study is that it is restricted to evaluation and analysis of secondary data/ information obtained from various Ministries/ financial institutions in the Government of India. The study relies on the review of the available literature including recommendations made by eminent Committees set up by the Government of India, international financial institutions etc. However, since it is a descriptive study on the distribution of funds/ credit mostly in the recent years, official secondary data on the schemes and flow of bank credit is the most meaningful source of data. However, primary data would have helped in better understanding of the constraints of micro and small entrepreneurs in accessing formal finance and their awareness about government schemes.

There was a serious constraint of time for this dissertation work which precluded the scope of collecting primary data from micro and small units with regard to the above issues.

Moreover, data obtained from official sources was not dis-aggregated for micro and small units separately (both in respect of CLCSS and CGTMSE schemes). Similarly, MSME bank credit data obtained from the Reserve Bank of India pertains to the category - MSME as a whole. This was a limitation on the analytical scope of the study.

The scope of the present study is restricted to fund flow/ credit flow to registered MSME units as the official data pertains to registered MSME units only.

Research Methodology

Research Design

It is a descriptive and exploratory study conducted primarily through a review of the available literature including reports/ articles on the subject along with an analysis of secondary data on fund flow/ coverage under major government schemes (CGTMSE, CLCSS, and PMMY) and credit disbursement to MSMEs. Data on Gross State Domestic Product (GSDP) in States, availability of select infrastructure indicators like availability of power, road length etc. in States were also analysed using basic statistical tools to ascertain possible reasons for any uneven distribution of funds/ credit.

Method(s) and Tools

Reports of eminent Committees set up by the Government of India and other articles from journals and reports of international financial institutions have been analysed using the following secondary data sources:

- i. Data on schemes like CGTMSE, CLCSS and PMMY were obtained from the CGTMSE, Ministry of MSME/ Office of Development Commissioner (MSME) and SIDBI respectively. CGTMSE data used includes cumulative data from the inception of the scheme in 2000 till 30.6.2017 and for last 5 years (obtained through RTI). Similarly, data for CLCSS is cumulative from its inception in 2000-01 till 30.6.2017 along with data for recent years.
- ii. Data on economic progress and select infrastructure indicators like Gross State Domestic Product, length of national highways and state highways and power availability in States were obtained from publications of the Reserve Bank of India (RBI), namely, *Handbook of Statistics on Indian States 2017*, as per latest availability,
- iii. Small Industries Development Bank of India (SIDBI) was the source of data on PMMY (since the inception of the scheme in April 2015 till 28.7.2017). Although data was sought till 30.6.2017 (as a common cut-off date), but RTI reply received from SIDBI covered cumulative data up to 28.7.2017.
- iv. The Reserve Bank of India was the source of data on bank credit to MSME units for the years 2014-15, 2015-16 and 2016-17 as well as for specialized MSME bank branches (both set of data obtained through RTI).
- v. The data on registered MSME units was sourced from the UAM portal.

Chapterisation Scheme

Chapter I: Introduction

This chapter starts with the definition of MSMEs in India, their contribution to the Indian economy and outlines the objectives, research questions, and methodology adopted for the study along with the sources of data.

Chapter II: Literature Review

This chapter gives a detailed review of existing literature on the subject including various documents/ reports published by the international financial agencies on MSME financing.

Chapter III: Performance of Major Schemes/ Programmes for MSMEs in India

This chapter covers the performance of the three selected schemes – CLCSS, CGTMSE, and PMMY.

Chapter IV: Distribution of Bank Credit to MSMEs in the States

This chapter covers the flow of bank credit to MSMEs in the Indian States. The spread of specialized MSME branches and association of bank credit flow and these branches in States have been analysed in this chapter.

Chapter V: Status of Economic Progress and Infrastructure in the States

The status of important economic indicators like gross state domestic product (GSDP), availability of power, length of national highways/ state highways, the progress of business reforms have been covered in this chapter. The association of flow of bank credit with these economic indicators has also been covered.

Chapter VI: MSME Funding in Developed and Developing Countries

The estimated MSME finance gap in various countries/ regions of the world have been covered in this chapter along with information on important sources of funds in various countries have been included.

Chapter VII: Recent Developments in the MSME Sector in India

Major initiatives undertaken by the Government of India and RBI in recent years for the promotion of MSMEs have been included in this chapter.

Chapter VIII: Major Findings & Suggestions

This is the concluding chapter summarising the major findings from each chapter and includes the suggestions for the balanced growth of MSMEs in India along with a more balanced distribution of funds/ benefits under the government schemes.