Chapter 25

Innovative Financing and its Implications on MSME Sector in India

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ABSTRACT

Micro, Small and Medium Enterprises’ (MSMEs) contribution in the development of world economy has been significant, both in terms of contribution to GDP and creation of employment opportunities. The present paper attempts to identify the role of innovative schemes offered by the banking sector in the upliftment of MSMEs in India. The researchers try to analyze the growth in Bank credit for the MSME sector over the last decade. This paper is based on extensive review of literatures on Banking sector and their contribution in encouraging MSMEs. The review showed that the Bank credit has increased significantly for the MSME sector since the priority sector lending norms were implemented but still there is a significant gap that needs to be fulfilled when it comes to the fulfilment of the credit needs of the MSME sector.

INTRODUCTION

MSMEs contribute significantly to the economy and are geographically widely spread. MSMEs are defined in different ways in different parts of the world. In some countries, they are defined in terms of assets, while few countries use employment as a parameter for defining MSMEs. The MSME sector is responsible for about 40 per cent of the exports and 45 per cent of the total manufacturing output of the country (MSME Annual Report, 2012). This sector is the nursery of entrepreneurship and has been recognised as the engine of growth.

DOI: 10.4018/978-1-5225-0143-5.ch025
Financing and that too at the right time plays a crucial role for the MSME Sector. MSMEs have scarcity of resources and in most of the cases rely on own funds for managing the business. Their access to banks and other financial institutions is comparatively lower when compared to the large enterprises.

MSME Sector plays a crucial role in the economy of our country. This sector is the second largest employment provider after agriculture. In fact, MSMEs have played a vital role in transforming our economy from an agrarian to an industrialized one. Realizing the importance of MSME sector in Indian economy, government has put credit to MSME sector under priority sector lending and made several other policies for making the hassle free flow of credit to this sector. Even after a number of policy implementations, the ground reality is that MSMEs still find it very difficult to access credit from banks and other financial institutions.

Micro, Small and Medium Enterprises’ (MSMEs) contribution in the development of world economy has been significant, both in terms of contribution to GDP and creation of employment opportunities. Economic growth of any country is closely associated with MSME development and there exists a positive relationship between the relative size of the MSME sector and economic growth. MSME Sector has helped in nurturing of thousands of entrepreneurs and they have setup a unit of their own. It is rightly known as the engine of growth as the share of contribution of this sector has registered a remarkable growth in the last decade. The main advantage of this sector is that it provides a large employment at a low capital cost.

Indian MSMEs play a significant role in Nation development through high contribution to Domestic Production, Significant Export Earnings, Low Investment Requirements, Operational Flexibility, Location Wise Mobility, Low Intensive Imports, Capacities to Develop Appropriate Indigenous Technology, Import Substitution, Contribution towards Defence Production, Technology Oriented Industries, Competitiveness in Domestic and Export Markets thereby generating new entrepreneurs by providing knowledge and training.

In the last few years, the MSME sector has reflected a higher growth compared to the overall industrial sector. With its quick responsiveness, adaptability and innovative approaches in the recent years, this sector has shown a commendable endurance to survive the effects of recession. In India too, the role of MSMEs is crucial in the overall industrial growth. With its quick responsiveness, adaptability and innovative approaches in the recent years, this sector has shown a commendable endurance to survive the effects of recession. MSMEs are a fundamental part of the economic fabric in developing countries, and they play a crucial role in furthering growth, innovation and prosperity.

The conventional wisdom argues that the inadequate financing of MSMEs is to a significant extent rooted in supply-side features. The manner in which the financial institutions and banks operate in the developing countries is biased when compare MSMEs with large enterprises. MSMEs find it relatively harder to get access to finance from these financial institutions. Banks generally show lack of interest when it comes to getting involved with MSMEs.

The inclusiveness of the MSME sector is highlighted by the fact that around 50 per cent of MSMEs in India are owned by underprivileged groups. Due to its low capital structure, coupled with high labour absorbing power, the sector has played a noteworthy role in achieving rural industrialisation as well. The MSME sector remains a key driving force for India’s complete transition from an agrarian economy to an industrialised one. Subsequently, MSMEs have been awarded a host of incentives by governments across India. A number of other organisations in the private and non-profit domain have also been aiding MSMEs to remain competitive in a more globalised economic order. This is set to continue in the coming decade as well, with MSMEs requiring access.