ABSTRACT
Micro Small and Medium Enterprises (MSME) form the backbone of the Indian manufacturing sector and have become engine of economic growth in India. The Micro, Small and Medium Enterprises (MSME) sector has been recognized as engine of growth all over the world. The MSME sector plays a very significant role in terms of balanced and inclusive growth and contributes to the process of economic development, equitable distribution of national income and regional dispersal of enterprises by way of mobilization of capital and entrepreneurial skills. Whenever we talk about the growth of MSMEs in India, all the time we should appreciate the role of financial institutions who stood behind this sector and supported in the way it was possible. In development of MSME sector, role played by credit lending institutions is remarkable. Indian Financial Institutions and the Government has a crucial contribution in development and promotion of MSME sector.

This paper closely analyses the growth and development of the Indian MSMEs from opening of the economy in last few years. Another part looks into the present scenario role of financial institutions in overall development of MSMEs across the nation. Paper also aims to evaluate opportunities and challenges in the sector for raising funds through financial institutions which should be considered by policy makers for better results.

Keywords--- MSME’s, Financial Institutions, Opportunities, Challenges, Economic Growth.

I. INTRODUCTION

The Micro, Small and Medium Enterprise (MSME) sector is crucial to India’s economy. There are 29.8 million enterprises in various industries, employing 69 million people. In all, the MSME sector accounts for 45 percent of Indian industrial output and 40 percent of the exports. Although 94 percent of MSMEs are unregistered, the contribution of the sector to India’s GDP has been growing consistently at 11.5 percent a year, which is higher than the overall GDP growth of 8 percent.

The Micro, Small and Medium Enterprises sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play significant role in providing employment opportunities at comparatively lower cost of capital than large scale industries but also help in establishment of industrialization of rural and backward areas, which leads to reduce regional imbalances and assure equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and contribute enormously to the socio-economic development of the country. MSMEs of India has to face many challenges and utilise the opportunities in the fast changing global markets. Now, MSMEs are required to make use of consultancy services to upgrade their competencies in various fields like marketing, finance, business development operations, technology etc.

MSMEs are having significant contribution in the country’s industrial output, employment, exports and consistent growth in employment followed by agriculture. The MSME sector not only providing employment but also helped rural development which was the biggest challenge in front of the Government as in initial phase of industrialization which has attracted rural population towards urban region. It has provided balanced regional development of the country and proved as a key success factor for rural development.
Broad Classification of the MSMEs in India

<table>
<thead>
<tr>
<th>Total number of MSMEs</th>
<th>Registered</th>
<th>Unregistered</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.8 million</td>
<td>28 million</td>
</tr>
</tbody>
</table>

Unorganised Sector

30 million

Source: MSME Census, NCEUS

Highlights of the MSME Sector

- Number of MSME Units: More than 45 million units in various sectors
- Production: 45% of Industrial Manufacturing Output
- Exports: 40% of India’s Total Export
- Employment: Providing employment to more than 100 million people, creating approximate 2 million job opportunities every year.
- Products: More than 8000 products

Objectives of the study

The main objectives of the present study are:
1. To analyse contribution of MSMEs in Indian Economy.
2. To examine the growth and performance MSMEs.
3. To analyse role of financial institutions in development of Indian MSMEs
4. To analyse various challenges of Indian MSMEs.

Research Methodology

The Data required for the study has been collected from secondary sources. The Data Collection includes (i) Annual Reports of MSMEs; (ii) SIDBI’s Reports on MSME Sector; (iii) Ministry of MSME’s releases; (iv) RBI Annual Reports, (v) Various Websites relevant to topics.

II. MSME - BACKBONE OF INDIAN ECONOMY

MSMEs in India are continuously gaining importance due to their significant contribution towards key factors of Indian economy. MSME units contribute more than 90% of total industrial units in India. To promote national economy Government is taking several steps to boost manufacturing sector. Government’s intention towards industrialization can be analysed through formation of various institutions for policy designing and allocation of funds through Five Year Plans. Formation of National Manufacturing Competitiveness Council by Government suggest ways to enhance competitiveness in the manufacturing sector to make sector globally competitive. Government has announced National Manufacturing Policy for raising the share of manufacturing to 25% of GDP by 2022. Make in India announced in September 2014 by New Government aims at to make India a Global Manufacturing hub.

A. Contribution of MSMEs in Production and GDP

More than 45 million units accounting for more than 90% of industrial units are playing key role in boosting economic growth of the country. MSMEs production has consistently grown over the period of last few years and stood at Rs. 671910 Crore i.e. 37. 52% of total industrial output at the end of FY12. This can be clearly understood from following table.

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Value of Output (Rs. In Crore)</th>
<th>Total Manufacturing Output (%share of MSME)</th>
<th>Gross Domestic Product (GDP) (%share of MSME)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>1351383.45</td>
<td>42.02</td>
<td>7.73</td>
</tr>
<tr>
<td>2008</td>
<td>1435179.26</td>
<td>41.92</td>
<td>7.81</td>
</tr>
<tr>
<td>2009</td>
<td>1524234.83</td>
<td>40.79</td>
<td>7.52</td>
</tr>
<tr>
<td>2010</td>
<td>1619355.00</td>
<td>39.63</td>
<td>7.43</td>
</tr>
</tbody>
</table>
From the above table we can say that MSME contribution in overall industrial production is consistently showing growing over the period of time. Consistent growth of MSME is an indication of Governments focused approach towards technological enhancement to increase their productivity.

**B. Contribution of MSMEs in Employment and rural development**

MSME has also proved themselves as engine of employment creation and total number of employment at the end of FY12 stood at 1011.8 Lakhs generating approximately 1.5 million employment opportunities every year. Year wise growth in employment provided by MSMEs for the period FY2007 to FY2012 can be explained with following figure:

MSME units are increasing over the period with steady growth rate and with the same pace sector providing employment opportunities to urban as well as rural population. As per MSME report for the year 2013-14 around 56% of MSME are located in urban region whereas 44% in rural region contributing towards equitable regional development. MSME sector has provided employment opportunities to rural population and thereby improving standard of living in rural India.

### III. MSME FINANCING STRATEGY

Finance is the lifeblood of business. Majority of Indian MSMEs are falling in unorganized sector and hence struggling for regular credit flow. For start-ups, entrepreneurs are managing finance through informal sources as they used to struggle for seed funding. MSMEs require timely and adequate capital infusion through term loans and working capital loans basically in the early and growth stages. Majority of Indian MSMEs have relied on following sources for their financing need:

- Ancestral Capital, personal savings, loan from relatives and loan from unregulated markets
- Retained earnings, funding through sale of assets
- Institutional financing from Schedules Commercial Banks
- Venture Capital Funds / Seed Funds

In respect of MSME contribution, there are many organizations that have been set up by the central governments, state governments and banks to support development of the MSMEs. The list of institutions set up for MSME development are as follows:

**A. Central Government**

1. Central Board for Micro, Small and Medium Enterprises
2. Small Industries Development Organizations
3. National Small Industries Corporation Ltd
4. National Institute for MSMEs
5. Entrepreneurship Development Institute of India

**B. State Government**

1. District Industries Centres
2. State Financial Corporations
3. Khadi and Village Industries Commission
4. State Small Industries Development Corporations
5. State Industrial Development Corporations/State Industrial Investment Corporations

**C. Banks**

1. Small Industries Development Corporations of India (SIDBI)
2. Commercial Banks
3. Regional Rural Banks
4. Cooperative Banks
5. National Bank for Agriculture and Rural Development (NABARD)
Apart from above stated sources there are various other sources of finance as stated with above bullet points which MSMEs choose as an easy source. These sources are own funds, funds from relatives or friends, credit from supplier and other informal sources. In this study we will only consider the financial institutions providing credit to MSMEs and falling in formal sector of MSME financing.

IV. ROLE OF FINANCIAL INSTITUTIONS AND DEVELOPMENT OF MSMEs IN INDIA

Indian MSMEs have proved themselves as key factor for overall economic development. Considering the role of MSMEs government has taken time to time initiatives for development and promotion of the sector. After analysis it is found that Government has made huge investments through five year plans for product, skill and competitive development of MSME sector. In the county like India where economy is in its developing phase has to give due consideration for key success factor. The same happened to Indian MSMEs which has attracted the attention of policy makers and researchers.

A. Formal Debt Supply to MSMEs

Within the formal financial sector as of 31st March 2012, banks account for 87% of total debt supply to the MSME sector with Scheduled Commercial Bank as a leader in debt financing account for 98% (Rs. 684797 Crore / Rs. 697000 Crore) and followed by Non-Banking Finance Companies and Smaller banks such as Regional Rural Banks, Urban Cooperative Banks and Government financial Institutions including State Financial and Investment Corporation around 02% (Rs. 12203 Crore / Rs.697000 Crore)

The MSMEs primarily rely on bank finance for their operations and as such ensuring timely and adequate flow of credit to the sector has been an overriding public policy objective. Over the years there has been a significant increase in credit extended to this sector by the banks. As at the end of the financial year 2012 total outstanding credit provided by all Scheduled Commercial Banks to MSME sector stood at Rs. 684797 as against Rs. 486017 Crore in 2011 registering an increase of 41%. Contribution of various financial sources towards MSME sector can be better understood from following table.

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Sector Banks</th>
<th>Private Sector Banks</th>
<th>Foreign Banks</th>
<th>Total (SBCs) Rs. In Crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>102550</td>
<td>13136</td>
<td>11637</td>
<td>127323</td>
</tr>
<tr>
<td>2008</td>
<td>151137</td>
<td>46912</td>
<td>15489</td>
<td>213538</td>
</tr>
<tr>
<td>2009</td>
<td>191408</td>
<td>466656</td>
<td>18603</td>
<td>256127</td>
</tr>
<tr>
<td>2010</td>
<td>278398</td>
<td>64534</td>
<td>21039</td>
<td>364001</td>
</tr>
<tr>
<td>2011</td>
<td>376625</td>
<td>87857</td>
<td>21535</td>
<td>486017</td>
</tr>
<tr>
<td>2012</td>
<td>500250</td>
<td>152554</td>
<td>31993</td>
<td>684797</td>
</tr>
</tbody>
</table>

Form the table we can see that total credit from SBCs to MSME sector has grown from Rs. 127323 Crore in FY2007 to Rs. 684797 Crore in FY2012. SBC’s Contribution in Credit flow to MSMEs – Public Sector Banks 75%, Private Sector Banks 19% & Foreign Banks 06%.

Though financial institutions have a higher perception of MSME Sector lending, consistently they are playing a key role in MSME financing. The continuous growth in formal financing to MSME is a result of guideline by the Reserve Bank of India for Priority Sector Lending (PSL). As per the PSL guidelines bank require to supply debt to priority sectors such as Agriculture, Micro and Small Enterprises. Some key points of PSL guidelines by RBI are as follows,

- Banks require to allocate sizeable share of their credit portfolio to micro and small enterprises. The Nair Committee Report (Feb ’12) on PSL has recommended that all domestic and foreign banks allocate 7% of their credit portfolio solely for financing micro and small enterprises.
- The Nair Committee has also recommended that foreign banks should have priority sector commitment of 40% of annual bank Credit with a sub target for the micro and small enterprise sector at 15% of Annual bank Credit. Government’s continuous policy focus on financing to micro and small enterprises will provide in future the large share of bank finance landscape for MSMEs.

B. Analysis of Bank Credit against MSMEs Fixed Investments and Production

Indian MSMEs performance is showing excellent growth in production over the period of time. Production contributing towards 45% of industrial output and 40% in export has attracted the attention of policy makers and financial institutions. Various initiatives jointly by Government of India and Small Industrial Development
Bank of India (SIDBI) lead to financial inclusion and growth of MSME sector in recent years. The growth percentage of bank credit against fixed asset investment and production of MSME is increasing at 33% and 22% respectively. The increase in credit flow is indication of policy makers concern towards growth of MSME sector for economic development of the nation.

Increase in credit flow from formal sector to MSME is due to GOI and SIDBI initiatives which includes:

- Inclusion of Micro and Small Enterprises in Priority Sector Lending
- Funding support to Credit Guarantee Fund Scheme to enhance unsecured financing
- Financial support to increase penetration of credit rating
- Promotion of Cluster Development
- The Nair Committee Recommendations
- Priority Sector Lending Norms
- Prime Ministers Task Force on MSMEs
- recommendations
- Policies to facilitate multi prolonged support to-Skill Development, market linkages, technology adaptation and infrastructure

C. The product and service portfolio through which financial institutions offering credit to MSME sector

Banks offering to MSME sector can be categorised as,

- Fund Based Products (Table IV) and
- Non-Fund based Products like Letter of Credit, Bank Guarantee, Current Account, Saving Account and Remittance. The overall support from government and competitive legal and regulatory environment has given boost to credit supply to MSMEs from financial institutions. The increased credit supply will certainly make MSME sector stronger and enhance their competitiveness in global market. Technology upgradation, tool room facilities, incubators and entrepreneurial training facilities will surly enhance the capabilities of MSME to increase contribution in GDP and to achieve the goal of government by 2022 of 25% manufacturing contribution in GDP.

V. CHALLENGES FACED BY MSME SECTOR

Irrespective of the efforts taken by government of India and Reserve bank of India in credit supply to MSME sector there is a huge gap between credit supply and demand by the sector. Not only the credit but there are others things too which are hindering the growth of the sector. Some of these challenges are as follows,

A. Financial Exclusion

Access to adequate and timely credit at a reasonable cost is the most critical problem faced by MSMEs. The statistics compiled in the fourth census of MSME sector revealed that only 5.18% of the units had availed finance through institutional sources, 2.05% through non-institutional sources and 92.77% of MSME units dependent on self-finance of informal sources.

This problems needs to be address to make MSME sector globally competitive and achieve GDP targets or expectations from the sector. Government needs to play a catalytic role to cater the needs of this sector.

B. Infrastructure

We are aiming at Best in Class infrastructural facilities for MSME. But in this case this remains only a paper work. Infrastructural problems restrict private initiatives in this sector. Therefore creation of better infrastructural facilities for MSMEs must receive priority.

C. Marketing

Revolution in IT sector, the assumed market for MSME products is no more in existence. To enhance MSME competitiveness due consideration should be given to application of IT based products for the use of marketing purpose should be promoted.

D. Technology

Due to high initial cost of technology upgradation, MSMEs are lagging behind in adaptation of technology and unable to be cost efficient. Sustainable Business Model approach should promoted with various attractive packages to MSMEs.

E. Need for Skilled Labour

The major constraint of MSME sector is availability of skilled labour force. For this government should develop integrated model for integration of educational institutes with industries. This practice will enhance the ability of students to get practical knowledge and skill set required by industry along with theory.

VI. CONCLUSION

In India, MSME will definitely continue to contribute towards its role in development of overall economy of the country. MSMEs are addressing to major challenges of Indian economy those are unemployment and poverty. By providing employment opportunities rural India MSME sector has played a crucial role in both above stated challenges. It has provided scope for regional development and demolishing imbalances. Worldwide MSMEs are considered as development engine for economy. So policy makers should give due consideration for designing good policies for the sector and equally for policy implementation. So far Financial Institutions have played an important role in support and development of MSMEs, focus should be given for more financial inclusion of MSMEs. Government should act on the recommendations of various committee reports appointed for MSME sector analysis.
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. The MSMEs of today will be large corporates and MNCs of tomorrow and hence will be giving strength to economy. So banks and other agencies should take pride while serving MSMEs as they are playing key role formation of such corporate and MNCs of Indian future of global industrial manufacturing hub.

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