

Financial Inclusion and Micro and Small Enterprises Growth

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ABSTRACT

The persons or firms linked with the either way of financial transaction are known as participants of financial inclusion financially included otherwise financially excluded. The normal way of flow of money is routed through banking system, post office, insurance and FBFC channels. The MSE is financially included with operation of saving account, current account or loan account with banks; financial transaction with other government financial agencies as well as some private sector NBFC. Recent initiatives of Government of India and Indian Banking system have accelerated the performance of financial inclusion through various schemes such as MNREGS, Jandhan, Atal Pension Yojna, MUDRA and so forth. The MUDRA scheme, credit scheme for MSE, credit scheme for KVIC & Coir firm, Kishan credit card, General Credit Card are exclusive financial inclusion scheme for MSE credit. Out of total size of MSEs, less than forty percent units are getting benefits from schedule commercial banks; as on 2017-18 only Rs. 1337 billion credit facilities given by the lending institutions. The paper examines the current status and potential prospect of financial inclusion at given numbers of units and employment.

Keywords-- Financial Inclusion, MSME, 4th Census of MSME, Jan Dhan Yojna, MUDRA

I. INTRODUCTION

The latest definition of micro, small and medium enterprises has been given by MSMED Act 2006, whole enterprises like Khadhi & Village, Coir, Tiny, Small and Medium units into Micro, Small and Medium Enterprises (MSME) with enhanced ceiling of investment in plant and machinery and equipment. The new ceiling of manufacturing micro is Rs. 25 lac, small Rs. 500 lac and medium Rs. 1000 lac; and ceiling of services micro Rs. 10 lac, small Rs. 200 lac and medium Rs. 500 lac with effect from 2nd October 2006. The micro and small enterprises (MSE) size is almost 99.96 per cent of MSME. As per the annual report of MSME Govt. of India (2011-12), the size of MSME is 31.15 million units with investments Rs. 7734.87 million, output Rs. 10957.58 billion and employments 73.21 million. Out of total size of MSEs, less than 30% units are getting benefits of financial inclusion or only 93 lac units out of 311 lac units have account with any of the schedule commercial banks. As on 2017-18 only 1337.42 billion financial credits has been given by commercial banks to 56.64 million MSE. The Micro Small and Medium Enterprises

(MSME) statistics reveals that the population size of MSME is 63.38 million units with approximately Rs. 22295 billion investments, approximately Rs. 32801 billion outputs, 28.77% Gross Value Added (GVA) in GDP, 110.98 million employments and approximately Rs. 1337 billion credit facilities by the lending institutions by March 2018. MANREGS and JANDHAN are most successful initiatives of government of India since 1947 to push the income and expenditure pattern of rural and semi urban people. Now in these days mobile is also playing vital role in financial inclusion. The socio-economic welfare scheme of government of India is one of the powerful instruments of financial inclusion, because the welfare schemes involve transfer of public/government money directly and indirectly into saving and investment function or income and expenditure function of economy. Opening of bank account, post office saving bank account, account with NBFC, purchase of insurance policy, JANDHAN account with bank, etc., are primary level of financial inclusion for the purpose of saving, investment, and direct benefit transfer (DBT) from different schemes such as MNREGS, Jandhan, Atal Pension Yojna, MUDRA programme. All these are helpful in financial inclusion through income-expenditure, saving-investment pattern of economy, it is helpful in infusion of surplus money in banking system and/or in capital market.

In context of Indian economy, the financial inclusion is defined by Rangarajan^s Committee (2008) as - "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." The financial inclusion includes the financial services of entire range viz. savings, loans (all types), insurance (all types), credit, payments, recent form of credit such as general credit card (GCC), Kisan Credit Card (KCC), small overdraft and credit through RBI authorised micro finance institutions to MSE of rural and urban areas. The reduction of financial exclusion may also leads to increase of financial inclusion for rural based entrepreneurs whose capital size is less than Rs. 25000. Due to failure of government machinery a larger number of rural and urban entrepreneur are under financial exclusion may be due to bottleneck in lending procedure and lending norms for tiny level units. Although, RBI has taken a numbers of measure to improve the financial services among financially excluded population/MSE. The financial inclusion (FI)

can help in the increase of savings, increase of capital formation, mobilizations of fund, poverty eradication and effective direction of government socio economic programs such as MNREGA and PMEGS etc. Some of the steps taken by RBI for financial inclusion of MSEs are extension of credit to the priority sector, no frills accounts (basic banking) with a low, zero or minimum balance and minimum charges for people in low income groups, easier credit facility through General Purpose Credit Card facility of up to INR 25000. The fourth census of micro small and medium enterprises is revealing that the micro and small enterprises have shares of above ninety four percent population of registered units and hundred percent shares in unregistered units. Out of the total size of units less than five percent of unregistered units are getting benefit from institutional advances as well as only eleven percent of total registered units are availing benefit from institutional advances or we can say that only 5.18% of total size of MSE is finance by any of the schedule commercial banks and rest are managed by own sources, friend-relatives and unauthorized NBFC, chit-fund company, private money lenders and so forth at higher interest rate. Above fifty percent of total person working in unregistered units have not any types of savings accounts. Financial inclusion is most effective way to derive the growth pattern of MSE as well as growth of Indian economy through increase of saving and increase of capital formation from their savings. The number of unit and direct employment is the potential driver of financial inclusion as well as driver of economic growth.

II. REVIEW OF STUDY

The report of 4th census of MSME (2007) reveals that the cause of sickness was due to shortage of financial capital with 21 per cent weight out of 100. Rakesh Mohan (2006) outlined critical appraisal of SSI policy regarding investment ceiling, fiscal incentives and credit support to priority sector. He emphasized that overall performance is not impressive in comparison of other developing nations. In his work he suggested that with increasing liberalisation and higher economic growth, the role of banking sector is poised to increase in the financing pattern of economic activities within the country. To meet the growing credit demand, the banks need to mobilise resources from a wider deposit base and extend credit to activities hitherto not financed by banks. Vinayak (2006) analyzed some issues related to the production, credit policy and competition of SSI in globalised era. He emphasized on credit facility & competition. He suggested that the production of MSE has been badly affected by deficient credit facility and increasing competition. The current credit facility is still limited to 14.9 percent of total SSI size; after liberalization of economy only 20 out of 200 toys firms in Delhi manage to stay out of the red, due to Chinese competition. Dario Cziraky et. el, (2005) have worked on

loan assessment of SME loan programme in Croatia and investigate possible reasons for low loan approval rate that occurred in spite of interest rates subsidisation and sufficient supply of the loan funds. Among all SME loan requests, banks preferred smaller firms that requested smaller loans. They suggested that individual banks differ in their criteria and in their loan-size preferences and that there is no positive correlation between the bank's size and its loan-size preference. Arito and Iichiro, (2009) investigated on determinants of the use of collateral and personal guarantees in Japan's SME loan market. They suggested that firms' riskiness does not have a significant effect on the likelihood that collateral is used, however, that main banks whose claims are collateralized monitor borrowers more intensively and that borrowers who have a long-term relationship with their main banks are more likely to pledge collateral. They suggested that consistent with the use of collateral is effective in raising the bank's seniority and enhances its screening and monitoring. Lakshmi and Murugan, (2009) examined on credit requirements of SMEs as well as difficulties faced by SMEs in availing bank finance. Their works indicate that most of the SMEs are availing cash credit facility from banks and are aware of the bank credit facilities through their agents. In availing bank credit facility, simple documentation has been ranked first, followed by low interest rate, quick financing, reputation, period of repayment and service. The study also reveals that technology of the bank has improved tremendously when compared to other aspects like employee relations, adequate credit facilities and helping the rural people. In next section we have discussed on methodology and analysis of this paper.

To know the credit facility of micro and small sector units the Government of India has taken various initiatives such formation of various study groups and committees, censuses, conducted and policies were made for better performance of this sector. The major committees and studies are the study of Karve Committee in 1955 on employment and growth of SSI. The P.N. Dhar & Lydall study in 1955 on the output-capital ratio. The Narshimham Committee report (1991), The Abid Hussain Committee in 1997 on credit facility to SSI unit. The RBI study on credit facility to SSI (headed by P. R. Nayak) in 1991 and 1997, the SSI study on credit facility to SSI sector (headed by S.L. Kapoor) in 1997-1998. The Planning Commission study report (headed by S.P. Gupta study Group) in 2000 to strengthen the SSI sector and recommend for the third census of SSI. Rakesh Mohan (2006), reveal that with increasing liberalisation and higher economic growth, the role of banking sector is poised to increase in the financing pattern of economic activities within the country. To meet the growing credit demand, the banks need to mobilise resources from a wider deposit base and extend credit to activities hitherto not financed by banks. The trend of increasing commercialisation of agriculture and rural activities should generate greener pastures, and banks should examine the benefits of

increasing penetration therein. Financial inclusion will strengthen financial deepening and provide resources to the banks to expand credit delivery. Mandira Sarma (2007), Financial inclusion is seen as a policy priority in many countries in the recent times. Initiatives for financial inclusion have come from the financial regulators, the governments and the banking industry. Mandira Sarma & Jesim Pais (2008) describes cross country empirical analysis of the relationship between financial inclusion and development, they revealed that levels of human development and financial inclusion in a country move closely with each other, although a few exceptions exist, i.e. the person potential for must have saving account with any of the authorised financial institutions.

III. METHODOLOGY AND ANALYSIS

The objective of this paper is to examine the current status and potential prospect of financial inclusion at given numbers of units and employment. To achieve the objective of this study, secondary data have been used. The sources of secondary data are from various Annual Report of SSI & MSME, census of SSI (1st, 2nd and 3rd census), census of MSME (4th census),

various issues of Economic Survey, RBI Annual Report and published research. Here, the number of units and employment are exogenous variables for endogenous variable financial inclusion has been assumed. The CAGR (cumulative annual growth rate) and other basic statistical tools such as mean value standard deviation and average percentage changes have been used in performance analysis of MSE and Financial Inclusion.

It is observed from table-1 that, total credit during 1991-2018 by all commercial banks was Rs. 8257.77 billion out of which Rs 6246.38 billion disbursed by PSB, Rs. 1712.40 billion by private sector banks and Rs. 298.99 billion by foreign bank in MSME. Total Investment by the promoter in MSEM was Rs. 183388.31 billion, while total fund infusion (capital infusion) in MSME was Rs. 191646.08 billion with 12.90 % share of bank credit in total capital for total output of Rs. 274225.14 billion in MSME sector. The average fund infusion for the period 1991-2018 is Rs. 6844.50 billion per annum including total average bank credit of Rs. 294.92 billion per annum; for the same period average output is Rs. 9793.76 billion. During 1991-2004, the private sector banks bank credit in MSME was almost negligible and bank credit by foreign banks was zero.

Table – 1: MSE PERFORMANCE (2014-18)

Year	No. of MSE (in Million)	Output (Rs. Billion)	Fixed Investment (Rs. Billion)	Total Bank Credit (Rs. Billion)	Total Capital Employed (Rs. Billion)
2004-05	11.86	4297.96	1786.99	83.13	1870.12
2005-06	12.34	4978.42	1881.13	101.29	1982.42
2006-07	36.76	11988.17	8685.43	127.32	8812.75
2007-08	37.73	13229.60	9204.59	213.54	9418.13
2008-09	39.37	13756.98	9771.14	256.13	10027.27
2009-10	41.08	14883.90	10385.46	364.00	10749.46
2010-11	42.87	16555.80	11059.34	486.02	11545.36
2011-12	44.76	17908.04	11833.32	528.62	12361.94
2012-13	46.55	19340.68	12779.99	613.01	13393.00
2013-14	48.41	20501.12	14185.78	709.66	14895.44
2014-15	50.35	22551.24	15604.36	846.74	16451.10
2015-16	52.36	25031.87	17008.76	971.86	17980.61
2016-17	54.46	29287.29	19219.89	1121.02	20340.91
2017-18	56.64	32801.77	22295.08	1337.42	23632.50
Total 1991-2018	695.42	274225.14	183388.31	8257.77	191646.08
Mean 1991-2018	24.84	9793.76	6549.58	294.92	6844.50

Source: Compiled and estimated from Annual Report of MSME and RBI various issues (2004-18).

From table, it can be observed that the PSB share in total bank credit is 71.51 percent, private bank share 25.69 percent and foreign bank share 2.80 percent on 2018. The bank credit of PBS and foreign has been

declined from average bank credit for the period 1991 to 2018, while bank credit of private sector banks have been increased from average bank credit for the period 1991 to 2018. The average growth rate of bank credit in MSME is

18.34 percent, PSB 16.65 percent, private bank 40.71 percent and foreign bank 14.36 percent. The growth rate of PSB bank credit is 18 percent; private sector bank 24 percent, foreign bank 12 percent and total bank credit 19.30 percent.

Table – 2 is exhibiting about CAGR, overall CAGR during pre-liberalization period was better than post-liberalization period in both data series except

sickness rate of MSEs. In new data series the investment & employment is showing slightly better performance due to increase in investment ceiling and merger of KVI & Coir industry with MSEs respectively. The average percentage changes value of all indicators during pre-globalisation period was better than post-globalisation period.

Table 2: CAGR & Average of %age Changes of different Performance of MSE

Parameters	Pre-Liberalisation (1973-74 to 1990-91)		Post-Liberalisation (1991-92 to 2005-06)		Post-Liberalisation (2006-07 to 2017-18)	
	CAGR %	Average of %age Changes	CAGR %	Average of %age Changes	CAGR %	Average of %age Changes
SME Units	9.4517	9.49	3.1493	4.07	6.0719	4.50
Investment	12.9024	13.82	3.5526	4.61	15.5957	11.48
Production	19.8030	20.01	10.6436	13.99	15.5957	11.48

Thus it is clear that the number of units, fixed investment amount, output, employment and export shows better CAGR and average percentage growth in pre-liberalisation period than post liberalization period. The rate of sickness has been declined in post liberalization era especially after 2002-03, which is favorable signal for MSE.

It is observed that the volume of credit facility to total number of units, investment quantity and output is very low. After Nayak committee, it has been increasing due to multiple economic, international and political pressures. The correlation coefficient between the variables is also revealing poor and negative result. The ordinary least square shows that the reason of lower output is due to weak dependency on independent variables. Finally the paper concludes that, post liberalisation policies (1991-2018) related to MSE credit, interest rate policies, credit rationing for MSE, priority sector policies for credit to MSE, openness for private and foreign bank in MSE finance is considerably good. The marginal productivity of credit to output is very strong; if we increase the credit quantity to MSE it will accelerate our production which will help in increase of the productivity of large sector firm, agriculture output, export earning and employment.

IV. CONCLUSION

It is concluded from above discussion that the PSB share in total bank credit is decreasing share of private bank and foreign bank is increasing in MSME credit. Bank credit of private sector banks have been increased from average bank credit for the period 1991 to 2018 in comparison of 2004-05. The average growth rate of bank credit in MSME is 18.34 percent, PSB 16.65 percent, private bank 40.71 percent and foreign bank 14.36 percent. The CAGR and average percentage changes figure of all performance parameters is slipping after globalisation except sickness rate. Through this study it is suggest that, the government of India must observe and revise the investment and financial inclusion

policy so that the degree of performance of MSE & Financial Inclusion will increase interdependently. The performance of Banks is poor which leads to slowdown of the performance of MSE which may be due to various policy reasons, the monetary and fiscal authority can improve the quantum of financial inclusion leads of increase in the MSE performance. When financial inclusion from bank side increases the performance of MSE will also increases and vice versa.

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