

MSME-GROWTH ENGINE OF EMPLOYMENT

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ABSTRACT

India is a developing country with a huge junk of young population bearing the burden of unemployment. Government is not in position to give employment through jobs hence it requires boosting the growth of MSME to create job opportunities in large scale to curtail the growth of unemployment. If we ponder considering the present scenario we will find that there is only 7% contribution towards MSME as against 90% or more (approx) from developed countries like Japan and Germany . The development of the micro, small and medium enterprises (SME) sector is on the priority of Government Agenda. The Mission of the government is to – “Promote growth and development of globally competitive Micro, small and Medium Enterprises, including Khadi, Village and Coir industries, in cooperation with concerned Ministries / Departments, State Governments and other stakeholders by providing support to existing enterprises, encouraging creation of new enterprises with new innovative and creative ideas.

KEY WORDS: MSME, Business, Employment, Banking

The role of micro, small and medium enterprises (MSMEs) in the economic and social development of the country is well established. The sector provides employment to about 69 million persons through 26 million enterprises throughout the country. Over 6000 products ranging from traditional to high-tech items are being manufactured by the MSMEs in the country. The labour to capital ratio in MSMEs and the overall growth in the sector is much higher than in the large industries. The geographic distribution of the MSMEs is also more even. Thus, MSMEs are important for the national objectives of growth with equity and inclusion. Moreover MSME is an emerging platform encouraging women participation in country's economy especially of rural areas through skilled, semi skilled workforce.

MSME CUSTOMER AWARENESS

Customer should be well aware about some technical issues/ knowledge before starting the business. Government has provided different tools to derive information on MSME business. In Indian market scenario normally, businesses can be of three types: manufacturing, services and trading. Further, there can be five types of business organizations: sole proprietorship, partnership, Limited Liability Partnership (LLP), Private Limited Company and Public Limited Company. One of the most crucial decisions for an entrepreneur starting a business is to decide what type of business to set up and what kind of business organizations to go for. This is so because legal

requirements vary depending on the organizational structure. Some important features have to be adhered by the new entrepreneurs. These are as under:

CHECKLIST FOR STARTING A NEW BUSINESS

It is necessary to start business to know about requirement of documents and other procedures. SIDBI has provide one site wherein entrepreneurs can get information to start the new business from website <https://smallb.sidbi.in>

UDYAMI HELPLINE - 1800 180 6763:

This is a call centre or a help line no provided to tackle problems or complains faced while dealing with issues related to MSME department. The Call Centre helps satisfy the long-felt need for a single point facility for MSMEs for getting access to a wide range of information, including banks' MSME products and other MSME-related organizations. This facility is available both in Hindi and English between 6.00 AM to 10.00 PM, 365 days, including Sunday and holidays.

UDYOG AADHAR MEMORANDUM

Udyog Aadhaar (UA) is an online registration portal for MSMEs (www.udyogaadhaar.gov.in). It was launched by the Government of India (GoI) in September 2015. Setting up of UA system was one of the recommendations of the Kamath Committee on Financial Architecture of MSME sector and was intended to lead to universal registration by MSMEs. Entrepreneurs need to file Udyog Aadhaar Memorandum (UAM) at the portal and

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there is no fee for filing the UAM. UAM requires Aadhaar no of authorized person in case of individual, proprietary concern and partnership concern. Upon completing the filing process, a twelve digit UAM number gets generated for the MSME units. Udyog Aadhaar registration enables the MSMEs to seek information and apply online about various services being offered by all Ministries and Departments. These benefits include - credit prescription, priority sector lending status, tax holidays, tax exemptions for excise duties, sales tax, income tax, tax subsidies, preferential allotment of land in industrial estates.

CENTRE KYC REGISTRY CERSAI AND CREDIT INFORMATION COMPANISES :KYC-

it is the process by which banks obtain information about identity and address of the customer. MSME entrepreneurs should be aware about six OVD (Officially Valid Document) for KYC. Viz., Passport, Driving Licence, Voters Identity Card, Aadhar Card issued by UIDAI and NREGA job card and Pan Card. GOI has entrusted CERSAI with the responsibility of acting as CKYCR for all entities regulated by RBI, SEBI, IRDA and PFRDA.

CERSAI:

Central Registry of Securitization, Asset Reconstruction and Security Interest, or CERSAI, was set up in March 2011 under Section 20 of SARFAESI Act, 2002. A 'not-for-profit' company, registered with the Registrar of companies, New Delhi is licensed under Section 25 of the Companies Act, 1956. It has been created to record the details of all assets, viz., movable / immovable / tangible / intangible assets and holding of charges on these assets by banks / FIs in respect of all types of borrowers, viz., individuals, partnership, company, trust etc. Whenever loans are repaid, the details have to be recorded with CERSAI.

RBI INITIATIVES ON LENDING TO MSME'S

The Master Direction issued by RBI on Lending to MSME sector dated July 21, 2016, deals with aspects of definition of micro, small and medium enterprises, priority sector guidelines for MSME sector, targets/sub-targets for lending to MSME sector by domestic commercial banks and foreign banks operating in India.

Investments ceiling for Plant, Machinery or Equipment

Classification	Manufacturing Enterprise	Service Enterprise
Micro	Up to ₹2.5 mn	Up to ₹1.0 mn
Small	Above ₹2.5 mn and up to ₹50 mn	Above ₹1.0 mn and up to ₹20 mn
Medium	Above ₹50 mn and up to ₹100 mn	Above ₹20 mn and up to ₹50 mn

Source: Ministry of Micro, Small & Medium Enterprises

Priority Sector Guidelines for MSME sector: As per directive of RBI on 'Priority Sector Lending and Master Direction on Lending to MSME sector dated July 21, 2016, bank loans to Micro, Small and Medium Enterprises, for both Manufacturing and Service sectors are eligible to be classified under the Priority Sector. Lending amount per borrower / unit to Micro and Small Enterprises is up to 5 crores and Rs.10 crore to Medium Enterprises engaged in providing or rendering of services as defined in terms of investment in equipment under MSMED Act, 2006. All loans to units in the KVI sector will be eligible for classification under the sub-target of 7.5 percent prescribed for Micro Enterprises under priority sector.

Other Finance to MSMEs: Loans to entities involved in assisting the decentralized sector in connection with supply of inputs and marketing outputs of artisans, village and cottage industries. Loans are sanctioned by Bank to MFIs for on-lending to MSME sector as per the conditions specified in the extant Master circular on Priority Sector Lending. Domestic commercial Bank has increased its GCTMSE cover from 1crs to 2 crs thus benefiting MSME borrowers who didn't have collateral securities.

Issue of Acknowledgement of Loan Applications to MSME borrowers: Banks have been advised to mandatorily acknowledge all loan applications, submitted manually or online, by their MSME borrowers and ensure that a running serial number is recorded on the application form as well as on the acknowledgement receipt. Banks are further encouraged to start Central Registration of loan applications. The same technology may be used for online submission of loan applications as also for online tracking of loan applications. This would ease out the loan application process.

NEW INSTRUMENTS TO FACILITATE FASTER REALIZATION OF TRADE RECEIVABLES

CERSAI: Another financial infrastructure, which could have a multiplier effect on lending to small businesses, is a Movable Asset Registry. Initially, the e-Registry CERSAI provided a facility for registering charge on immovable property. However, most of the small business entrepreneurs do not possess immovable property to offer as collateral and instead they own machinery, stocks, receivables or livestock, which can be leveraged to obtain finance from banking channels if a 'Movable Asset' Registry is available.

Trade Receivable Discounting System): This is one of the most important initiatives of RBI for promoting institutional financing to MSMEs. The MSMEs which do not have bank

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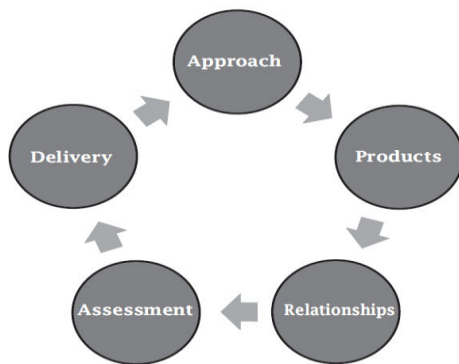
finance can receive quick finance in two days by discounting their trade bills in the online credit platform of RBI, viz., TReDS. RBI has recently issued licenses to three entities for operating the TReDS to facilitate timely realization of receivables, viz., NSE Strategic Investment Corporation & SIDBI, Axis Bank and Mynd Solutions Pvt Ltd.

New Institutions for MSME Financing – Small Finance Banks (SFBs): As per RBI Guidelines, the objectives for setting up of Small Finance Banks are, “To further provide financial inclusion by (a) provision of savings vehicles, and (ii) supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganized sector entities, through high technology-low cost operations”. The small finance banks will be required to extend 75 per cent of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending . At least 50 per cent of its loan portfolio should constitute loans and advances of up to Rs. 25 lakh.

Prime Minister’s Task Force initiative for MSME advance: For growth of MSME sector PM task force has initiated some guidelines to banks . These are as follow:

20 % yearly growth in credit of Micro and Small Enterprises (MSE), 10 % annual growth in the number of Micro Enterprise accounts and 60% of total lending to MSE sector as on March 31st of the financial year.

FIVE-PRONGED FOCUS TO INNOVATION IN CREDIT DELIVERY IN THE MSME SECTOR



- **Approach:**The traditional approach to lending to the MSME sector was to use the “one size fits all” attitude and method. There was a price led approach with no economies of scale.

- **Products:** Traditional banking focused on fund based approaches linked to the financial statements of borrowers with low customization. Newer models focus on

Fund / Non-Fund transactions, sector specific products, forex and trade related lending, cash flow based lending, transaction banking and cash management services etc.

- **Relationships:** Banking to the MSME sector was largely reaction driven. Increasingly banking has become relationship based with banks focusing on actual needs of the customer. The single interface that the customer used to have at the bank through the branch has now changed to multiple interfaces through branch, ATM, internet, mobile and IVRS. Online submission and tracking of application forms has become mandatory for all banks.

- **Assessment:** Traditional approaches to lending used to depend on credit appraisal using financial statements. Newer models look at a 360 degrees evaluation, with credit scoring models and centralized sanctions.

E-COMMERCE:

Industry reports pegged the Indian e-commerce market at \$13.6 billion in 2014 and reports estimate that the e-commerce market has been growing at a CAGR of 37 per cent since 2011 and within the next five years, it will be worth \$100 billion, contributing 4 per cent to the country’s GDP. The thriving e-commerce market place is being fuelled by a large and growing pool of micro, small and medium enterprise (MSME) players, who are retailing through the larger market platforms like Snapdeal, Flipkart and Amazon. These MSMEs, which would have had challenges in building their own distribution net-works, have found huge benefits in the reach of the e-commerce players. In fact, according to a recent report, Snapdeal has 100,000 SME retailers, Flipkart 30,000 and Amazon 25,000. The e-commerce industry, on an average it is said, witnesses 30,000-50,000 new sellers joining the platform monthly. E-commerce players have now realised that critical to their growth is the growth of MSME vendors and likewise the growth of their funding options. E-commerce giants like Snapdeal, Flipkart etc. are therefore now financing such MSME’s. In recent times SBI, AXIS Bank and some other banks have joined hands with these e-commerce companies to give loans to MSME. Some of these are illustrated below:

SBI Lending through SNAPDEAL: Country's largest lender State Bank of India has announced the launch of SBI e-Smart SME to offer easy working capital to online e-commerce players. The bank has initially tied up with e-commerce major Snapdeal to offer instant loans to its sellers. "The e-commerce growth has created a new ecosystem enabling more than 5 lakh sellers to sell product on digital platform.

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Flipkart Financial Assistance Programme: E-commerce major Flipkart today said it has launched a financial assistance programme for its merchants to help them secure capital to expand their business online. Under the 'Growth Capital Initiative', Flipkart has partnered Bajaj Finserv, Axis Bank, NeoGrowth, Lendingkart and Capital First to enable entrepreneurs fulfill their business aspirations. The company has already helped SMEs secure loans totalling about Rs 4 crore in the pilot phase

Flipkart Partnering SME Corner: India's leading e-commerce marketplace Flipkart has partnered with SMEcorner, an online financing platform for SMEs (small and medium enterprises), to assist sellers on its platform avail loans from banks and NBFCs (non-banking financial companies) without the hassle of dealing with middlemen.

For e-tailers, small enterprises are a big opportunity: Deep-pocket e-tailers are turning to the country's 47 million SMEs to host a unique assortment of products. Deep-pocket e-tailers like Amazon, Flipkart and Snapdeal are turning to the country's 47 million small and medium enterprises (SMEs) to host a unique assortment of products on their online stores. They are providing specialised training, logistics, infrastructure and technology support to these SMEs to enrich their product selection in categories like apparel, jewellery, handicrafts, fashion accessories and leather goods.

NBFCs Line up to lend E-Commerce sellers: Non-banking finance companies are increasingly lending to sellers on major ecommerce marketplaces even as some of their traditional businesses such as equipment finances and truck funding faces a slowdown. E-commerce companies such as Snapdeal and Flipkart are tying up with these nimble financial institutions to provide funding — mainly working capital — to sellers on their platforms.

FIN-TECHS-OPPORTUNITIES, RISKS AND CHALLENGES TO MSME

Consumer banking and payments are the sector most likely to be disrupted over the next five years. Fin-Techs' game changing disruption is in disintermediation. We have seen the emergence of online platforms that allow individuals and businesses to lend and borrow from each other. Innovations in approaches to lending also result in alternate credit assessment models i.e., use of non-traditional data sources and powerful data analytics for customer-

centric lending processes and lower operating costs. MSME banking is the 4th largest sector to be disrupted by Fin-tech in the next 5 years after consumer banking, payments, and investment/wealth management. One, the threat to banks' business comes from the new breed of fintech companies, who are innovative and nimble, and have capacities to address the specific pain points of service deliveries to customers in the areas of remittances/ payments, credit and savings using niche technology platforms and solutions. Two, corporate bond market is expected to grow significantly in the coming years due to recent regulatory initiatives. Added to that, RBI proposes to put in place in coming 2/3 years new regulations prescribing higher risk weight and additional provisioning in respect of a special class of large borrowers called "specified borrowers

CONCLUSION

It is evident that the growth of MSME will be the real cure of the social evil 'Unemployment'. Various government schemes like Start up India, Make in India, and Stand up India are initiated along with bank's collaboration to increase the graphical scale of MSME. Banks are leaving no stone unturned to capitalize its resources, manual or digital to promote MSME among new and established entrepreneurs with marginalized capital. We are aware that a major chunk of our population consist of young generation who are more prone to technology and electronic gadgets thus companies like Fin-tech and E-commerce plays a pivotal role in laying pathway to boost MSME. With government support and constant endeavor to resolve the challenges of marketing, capital and technology, MSME will continue to play a substantial role in the Indian economy.

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