



The Elixir for MSMEs: Access to Credit

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This editorial is based on the article "[Expensive access to credit a universal issue for SMEs](#)" which appeared in The Hindu on 1st June, 2019. The article talks about the difficulties in access to credit for SMEs.

Micro, small, and medium-sized enterprises (MSMEs) have gained increased attention in India in recent times, considering their strategic importance to the economy and the country.

What are Micro, Small & Medium Enterprises?

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

- **Manufacturing Enterprises:** enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and Regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery.
- **Service Enterprises:** The enterprises engaged in providing or rendering of services and are **defined in terms of investment in equipment.**

Importance of MSME

- MSMEs play an important role in generating employment—48.8 million MSMEs in the country provide employment to 111.4 million people.
- MSMEs in the manufacturing sector alone produces more than 6,000 products and contribute 7.7% of the GDP of the country. Similarly, MSMEs in the services sector contributed 27.4% of the country's GDP.

In spite of their contribution, MSMEs in India face several challenges, particularly related to access to credit.

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Some of the Key challenges faced by SMEs are listed below

- **Scarcity of Resources**

One of the most important challenges faced by SMEs in India is the scarcity of Resources such as Raw material and labour.

- **Lack of Technology**

One of the crucial factor the decides the success or failure of an Enterprise is the use of Technology for the production. The best technology helps the enterprise to reduce its cost of production, improves productivity and brings efficiency, but SMEs fails to cope up with the latest technology due to lack of finance in India.

Steps by government to promote MSME (12 point programme)

- Loan in 59 minutes
- Interest benefits for the GST registered MSMEs.
- CPSEs and Corporates more than Rs. 500 crore to join Trade Receivables e-Discounting System or the TReDS platforms
- Tech support to MSMEs via 20 hubs and 100 spokes
- Mandatory 25% procurement from MSMEs by CPSEs
- Now, returns due to 8 labour Laws and 10 rules to be filed only once instead of the earlier twice.
- Pharma Clusters where 70% cost borne by Centre
- All CPSEs to join Government e-marketplace(GeM)
- Of the 25% mandatory procurement, 3% to be done only from women led MSMEs
- Ending inspector Raj and ensuring transparency
- Ordinance for simplifying levy of penalties for minor offences
- Easier process for Environmental Clearances and 'Consent to Establish'

Government Programme to Promote MSME

- **ASPIRE scheme**

A scheme for Promotion of Innovation, Rural Industry and Entrepreneurship (ASPIRE) was launched in 2015. The aim is to set up a network of technology centres and to set up incubation centres to accelerate entrepreneurship and also to promote startups for innovation and entrepreneurship in agro-industry.

- **Zero Defect Zero Effect**

Under Zero Defect Zero Effect (ZED)launched in 2016, with two objective of promotion of production mechanism wherein the products have no defects and the impact on environment is zero.

- **SFURTI scheme**

SFURTI scheme was revamped in 2014. The scheme has been introduced all over India to generate employment in rural areas. Under this scheme 29 khadi, 47 village industries and 21 coir clusters have been made functional by providing them with improved equipment, common facilities centres, business development services, training, capacity building and design and marketing support, etc.

- **Revival and Rehabilitation Framework under MSMEs**

Ministry of MSME, in 2015, notified a 'Framework for Revival and Rehabilitation of MSMEs' so as to provide for a simpler and faster mechanism to address the stress in the MSME accounts.

- **Grievance Monitoring**

The Ministry attends to the grievances on Centralized Public Grievance Redress and Monitoring System (CPGRAMS) by doing this the Ministry of MSME has become the first Ministry to have its own MSME Internet Grievance Monitoring System.

- **International Cooperation**

Government of India enters into long-term Agreements/Memorandum of Understanding (MoUs) with various countries for promoting cooperation in the field of MSMEs in the broad areas of capacity building, industrial surveys and feasibility studies, enterprise to enterprise collaboration, participation in exhibitions and trade fairs, exchanging business missions, technology transfer etc. During 2014-2018, the Ministry has signed two MoUs at Government to Government level with Sweden (2015) and United Arab Emirates (2017).

- **National SC/ST Hub**

An initiative targeted towards developing a supporting ecosystem for SC/ST entrepreneurs. The schemes has resulted in registration of 13211 SC and 2704 ST enterprises on the MSME databank.

- **Technology Centre system Programme**

- To expand and upgrade the network of Technology Centres (Tool Rooms and Technology Development Centres) in the country, Ministry of MSME is implementing Technology Centre Systems Programme (TCSP) at an estimated Cost of Rs. 2200 Cr., including World Bank Loan assistance of USD 200 million, to establish 15 new Technology Centres (TCs) and upgrade existing TCs across the country.
- Efforts have been made during the last four years to make **NIMSME (National Institute for Micro, Small and Medium Enterprises)** as one of the premier National Institutes of India. The Institute conducts Training Programmes in various states across the country resulting in training of 1,72,213 youth/executives and 26,630 grounded units. ni-msme also organized several 'job melas' in various states, in which 44,449 persons were selected for wage

employment. Ni-msme also brought out 40 publications on various topics.

- **Accessibility to credit**

- Prime Minister's employment Generation Programme
- Credit linked capital subsidy scheme
- Credit guarantee trust fund for Micro and small enterprises
- Priority sector lending of RBI

However, what should be noted is accessibility to credit remains an Achilles heel for MSME sector.

A cursory Look at the State of Finance for MSME

- According to the International Finance Corporation (2012), the supply of finance to the MSME sector is estimated to be 32.5 trillion Indian rupees. **This total comprises contributions from informal finance, formal finance, and self-finance.**
 - Informal sources and self-finance contribute Rs. 25.5 trillion to the sector, of which informal finance accounts for Rs24.4 trillion. In other words, **78% of the finance used by MSMEs is met by informal sources and self-finance.**
 - The remaining 22% (Rs6.9 trillion) is provided by banks and NBFCs, of which banks provide the bulk (91.8%).
- According to the Economic Survey 2017, the MSME sector faces a major problem in terms of getting adequate credit for expansion of business activities.
 - Latest data on credit disbursed by banks shows that out of a total outstanding credit of 26041 billion as in November 2017, 82.6 percent of the amount was lent to large enterprises.
 - The MSME received only 17.4 per cent of the total credit outstanding. Growth of credit to Micro and Small enterprises increased by 4.6 per cent, while credit to Medium enterprises decreased by 8.3 per cent

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Reasons for Poor State of Finance of MSME

- Major challenges in accessing finance reported by enterprises in this stage included the **difficulty in providing collateral** or a guarantee, **processing time** for loan applications, **lack of knowledge** about available schemes, and procedural complications.
- Moreover, financial institutions are averse to provide loan on fear of increasing NPA.

Impact of Poor Finance on MSME

- In the absence of proper credit, MSMEs in India cannot technologically upgrade themselves.

- They generally face challenges in expansion.
- In the absence of resources, MSMEs cannot compete with larger sectoral competitors.

Way Forward

- To address lender uncertainty around SMEs, the government can guarantee to repay a substantial portion of SME debt. This will ease lender concerns and attract more finance to the sector.
- Credit-information infrastructure for small and medium-sized enterprises (SMEs) should be established, with a mandate to provide credit guarantees to ease their access to finance.
- SME credit risk databases, credit bureaus and credit ratings that can help lenders should be developed to address the problem of collateral.

Drishti Input:

In the absence of an institutional framework for access to credit to MSMEs, the benefits of demographic dividend cannot be reaped. Comment.