

Bank Financing In Kerala with Special Reference to Micro Small and Medium Enterprises

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Abstract

Growth through small enterprises is a strategy which has become the driving force of many policies recently. In the industrial front of Kerala, Micro Small and Medium Enterprises (MSME) have a great role to play. As per the MSME survey and Quick results of fourth Census, 5.62 percentage of all India share of MSME enterprises is in Kerala. (Economic Review 2014). Its importance in the industrial growth of Kerala is multifold. It is emerging as a major income generating and employment providing sector. It also gives importance to various social groups like SC, ST, women, youth, physically handicapped etc. and has helped in the reduction of social and regional imbalances. MSMEs also have the ability to innovate and experiment with new technologies on small scales. On the contrary, lack of funds is considered to be a major setback for their development. In this context, this paper tries to examine the performance of MSME in Kerala and measures taken by Reserve Bank of India to ensure credit flow to these units. It is found that in spite of the guidelines given by Reserve Bank of India, neither the units are aware of the facilities open for them nor the commercial banks are following it.

Keywords: MSME, RBI, finance, commercial banks

INTRODUCTION

Industrialization has been set as a major objective in almost all five year plans in India. For that matter, industrial policy reforms were framed and modified accordingly from time to time. Though initially, promotion of large scale industries has been the thrust area, the importance of small scale industries

was not totally neglected. Gradually the role of SSIs in promoting rural development and employment generation was placed at par with the of large industries. This resulted in the redefinition of small scale industries as Micro Small and Medium Enterprises in 2006.

MSMEs are considered as the engine of economic growth throughout the world. Their importance has been highlighted as employment generation, innovation, utilization of local resources, use of simple and flexible technology. Their role in promoting equitable development needs special mention too. In the 21st century, MSME has succeeded in playing a major part in the industrial scenario of any country that they have been considered as the backbone of the economies. MSME not only play a crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural and backward areas, thereby reducing regional imbalances, assuring more equitable distribution of income and wealth. (Annual Report 2013-14, Ministry of MSME).

MSMED ACT 2006

The Government of India had enacted the Micro, Small and Medium Enterprises Development Act, on June 2006, which went a step forward in defining micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services. This is considered as a major breakthrough in favour of the MSME sector in India.

Definition

Classification	Investment in plant and machinery	
	Manufacturing sector	Service sector
Micro enterprises	Doesnot exceed Rs. 25 lakhs	Doesnot exceed Rs. 10 lakhs
Small enterprises	>Rs. 25 lakh and doesnot exceed Rs.5 crores	>Rs. 10 lakh and doesnot exceed Rs.2 crores
Medium enterprises	>Rs. 5 crores and doesnot exceed Rs. 10 crores	>Rs. 2 crores and doesnot exceed Rs. 5 crores

MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services, and levels of technology. They complement large industries as ancillary units and contribute enormously to the socio economic development of the country(Annual Report MSME, 2013-14). In fact, this sector has played a significant role in the overall industrial development of the country. Not only did they register a higher growth rate, but also could successfully survive the difficulties especially

recession. This is very much clear when we see there is an increase of around 5 percent in terms of units , investment and employment. In all, the MSME sector accounts for 45 percent of Indian industrial output and 40 percent 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 (IFC MSME Report, 2012).

TABLE -1: Details of MSME Units in India

Sl.no.	Year	Total Working Enterprises (in Lakh)	Employment (in Lakh)	Market Value of Fixed Assets (Rs. in Crore)
1.	2006-07	361.76	805.23	868,543.79
2.	2007-08#	377.36(4.31)	842.00(4.56)	920,459.84(5.97)
3.	2008-09#	393.70(4.34)	880.84(4.65)	977,114.72(6.28)
4.	2009-10#	410.80(4.36)	921.79(4.7)	1,038,546.08(6.5)
5.	2010-11#	428.73(4.41)	965.15(4.75)	1,105,934.09(6.9)
6.	2011-12#	447.66(4.45)	1,011.80(4.91)	1,183,332.00(7.26)
7.	2012-13#	467.56 (4.44)	1,061.52(4.91)	1,269,338.02 (7.3)

Source – Annual Report- MSME- 2013-14, # shows projected figure. Figures in bracket shows annual growth rate.

Micro, Small and Medium enterprises have been growing steadily and consistently in terms of number of units, employment and market value of fixed assets as is evident from the table. If we see the state wise performance in the case of growth of micro, small and medium enterprises in the country, the state of Kerala has been doing extremely well. The state has succeeded in being ranked as one of the top five states in recent years on the criterion of growth rate of industrial Gross State Domestic Product(GSDP) .This needs special mention as the state was lagging behind in the industrial front .After consistent effortsof the successive governments to industrialisethe state based on large scale industries could not find expected results. The stagnation in the industrial sector has been debated and discussed among the scholars and officials, they trying to find out the problems and solutions to these problems. This was well reflected in the industrial policies of the state framed from time to time. Theenactment of MSME Act in 2006 was a major breakthrough and went a step forward in bringing them into the mainstream.

The state of Kerala otherwise popular for its development index related to literacy rate ,health care, gender consciousness, labour rights and participative governance, has been lagging behind in the case of industrialization compared to other statesof India. The predominance of cash crops, the early opportunities of the state in getting agriculture commercialized and

opened to international markets and the exploitative character of the colonial regime had provided the state only limited opportunities in the industrial sector and led to a particular pattern of industrial activities dominated by traditional industries like coir, cashew , handloom, tiles etc.and very few modern industrial units with no substantial forward linkage that would attract and sustain industrial diversification and expansion [3].

Some unfavourable factors like high wage cost, political interference , labourmilitancy, power shortage , mismanagement, strikes also did their bit in harming the industrial climate of the state [2],[4].This had resulted in shifting of enterprises to other neighbouring states for want of a profitable and favourable industrial environment[5]. The relevance of industrial development for the overall economic development has been positively considered by various governments of Kerala since 1990’s.This resulted in industrial policy statements that stressed the importance of industries and thereby framing policies to encourage and promote industries in the state. These efforts went a long way in reviving the traditional industries and brought a positive spirit among the emerging entrepreneurs. This resulted in the development of SMEs though based on traditional industries .The enactment of MSMED Act 2006 gave much needed impetus for the development of variety of enterprises giving importance for various sections of the society.

MSME IN KERALA

Kerala is one of the main centres of MSME in India. As per the MSME survey and quick results of 4th census, 5.62percent of all India share of MSME is in Kerala. Government has been providing various schemes in MSME sector , targeting various social groups as SC , ST, women, youth and physically handicapped and is expecting this sector to lead the state economy through better quality production techniques and products. Within the MSME sector, there has been significant increase of micro enterprises, both in terms of working enterprises and employment. There are over 6000 various MSME products ranging from traditional to high- tech items which are being manufactured in this sector.It has accelerated the pace of industrialization in the state with the active

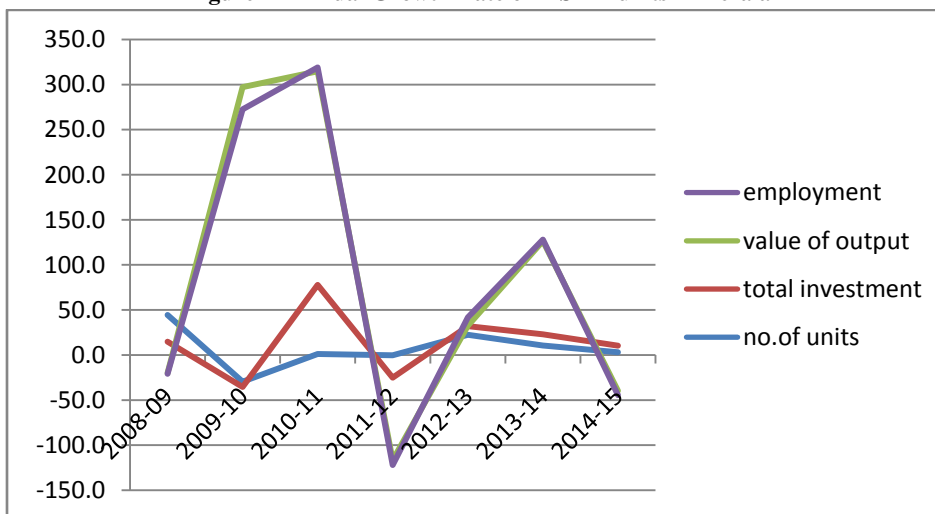
participation of various social groups like SC/ST, women, youth, physically handicapped in the development process and also ensuring an equitable distribution of income. There were about 2,57,466 MSME units in Kerala in 2015 out of which 9907 units were promoted by SC category, 1868 units by ST category, 64293 units by women and 245891 units were promoted by others(Economic Review ,2015).The industries coming under the sector are handicrafts, handloom, khadi, food processing industries, garment making and textile industries, industries related to coir, wood, bamboo, plastic , rubber, leather and clay products. The importance of these units in the state economy can be very well understood from their growth in terms of units, investment, employment and value of output. This is shown in the table given below.

Table -2 - Year-wise Details of SSI/MSME units registered in Kerala

Year	No. of units	Total investment (Rs.lakhs)	value of output (Rs.lakhs)	employment
2007-08	10757	205198.6	878959.83	107165
2008-09	15541	144349.62	573368.79	106159
2009-10	10956	136003.27	2479321.96	80020
2010-11	11089	240193.41	8353150.28	83468
2011-12	11071	180436.95	697837.46	79015
2012-13	13551	197912.01	700712.08	86431
2013-14	14997	222412.28	1425141.4	87789
2014-15	15455	238794.75	711975.39	83500

source - Economic Review , 2015

Figure -1-Annual Growth Rate of MSME units in Kerala



It is evident from the table-2 that in spite of the efforts of the state Government to encourage and bring them to the mainstream , the performance of the sector in

terms of units, employment, investment and value of output has been fluctuating widely. The variation is extreme in the case of employment and value of output.

Even though Kerala has gained topmost position among the states ranked on the basis of industrial GSDP, maximum number of sick units is also seen in Kerala itself. The importance accorded to MSME at the official level and the increasing importance of this sector in the industrialization of the economies has attracted many studies. Majority of the studies tried to analyse the performance of this sector, had also highlighted the problems faced by this sector. These studies pinpointed the need for ensuring proper credit flow to these units for their better performance.

- Absence of adequate and timely supply of bank finance, limited capital and knowledge, lack of power, low quality inputs, low return, non availability of suitable technology, low production capacity, ineffective marketing strategies are the main problems of MSMEs in India. (Shiralashetti, 2012)
- According to the Report of Prime Ministers Task Force on MSMEs, Government of India, January, 2010, access to adequate and timely credit at a reasonable cost is the most critical problem faced by this sector.
- The National Commission on Enterprises in the Unorganised Sector (NCEUS) had estimated 73% credit gap for the micro enterprises as at the end of March 2012.
- MSME play a critical role in innovation, and have ability to experiment with new technologies on small scale. However, they often suffer from funds, lack of entrepreneurship spirit, inability to take technology development risks and face the difficulty of attracting skilled manpower. (state profile)
- The lack of adequate and timely access to finance has been the biggest challenge to MSMEs. Financial institutions have limited their exposure to the sector due to a higher risk perception and limited access of MSMEs to immovable collateral. (IFC MSME report)
- According to the annual report of MSME, the major reasons stated for the sickness of the units in the sector were mainly lack of demand, shortage of working capital, marketing problems, power problems, labour problems etc. Among these factors, lack of demand and shortage of working capital were the major reasons affecting the very existence of these units.

RBI initiatives

Since credit crunch was identified as one of the major reasons for the sickness of the MSME units in the country, Reserve Bank of India has issued proper guidelines in this matter. In this context, the major ones

needs to be mentioned here. As per extant policy, certain targets have been prescribed for banks for lending to the Micro and Small enterprise (MSE) sector. In order to ensure that sufficient credit is available to micro enterprises within the MSE sector, banks should ensure that:

- 40 per cent of the total advances to MSE sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to Rs. 10 lakh and micro (service) enterprises having investment in equipment up to Rs. 4 lakh; 20 per cent of the total advances to MSE sector should go to micro (manufacturing) enterprises with investment in plant and machinery above Rs. 10 lakh and up to Rs. 25 lakh, and micro (service) enterprises with investment in equipment above Rs. 4 lakh and up to Rs. 10 lakh. Thus, 60 per cent of MSE advances should go to the micro enterprises.
- Public sector banks have been advised to open at least one specialized branch in each district. As on March 2013 there are 2032 specialized MSME branches.
- Banks have also been advised that they should open more MSE focused branch offices at different MSE clusters which can also act as counseling centres for MSEs. Each lead bank of the district may adopt at least one cluster.
- Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), will provide guarantees to the banks and banks are instructed to provide collateral free loans to this sector up to Rs 1 crore.
- The public sector banks will ensure specialized MSME branches in identified clusters/centres with preponderance of small enterprises to enable the entrepreneurs to have easy access to the bank credit and to equip bank personnel to develop requisite expertise.
- Banks are mandated not to accept collateral security in the case of loans upto Rs 10 lakh extended to units in the MSE sector., banks may, on the basis of good track record and financial position of MSE units, increase the limit of dispensation of collateral requirement for loans up to Rs.25 lakh with the approval of the appropriate authority.
- The Banking Codes and Standard Board of India (BCSBI) has formulated a Code of Bank's Commitment to Micro and Small Enterprises. It provides protection to MSE and explains how banks are expected to deal with MSE for their day to-day operations and in times of financial difficulty.
- To address the problems such as absence of financial literacy, working skills, business planning etc. which shows alarming situation to MSME

borrowers, RBI has advised commercial banks to play proactive role to support MSME clients by providing them banking literacy and consultancy support in addition to Financial services

- The banks have been advised by RBI to put in place loan policies governing extension of credit facilities for the MSE sector duly approved by their Board of Directors .Banks have, however, been advised to sanction limits after proper appraisal of the genuine working capital requirements of the borrowers keeping in mind their business cycle and short term credit requirement.
- Composite loan limit of Rs.1crore can be sanctioned by banks to enable the MSME entrepreneurs to avail of their working capital and term loan requirement through Single Window.
- Ministry of Micro, Small and Medium Enterprises has also approved a list of clusters under the Scheme of Fund for Regeneration of Traditional Industries (SFURTI) and Micro and Small Enterprises Cluster Development Programme (MSE-CDP) located in 121 Minority Concentration Districts. Accordingly, banks have been advised to take appropriate measures to improve the credit flow to the identified clusters.

Commercial Banking in Kerala

As already mentioned ,kerala is one of the major centres of micro and small industries in India. At the same time, the state is also well known for its well developed banking infrastructure. Before going into the policies taken by banks in Kerala to promote and support these industries, banking sector in the state needs to be mentioned here.

Kerala boasts of a well developed banking infrastructure.A total number of 5262 bank branches in a small state but at par with large states like Bihar, Punjab and Rajasthanneeds special mention here . About 5 percent of the total deposits in the country are mobilised by commercial banks in Kerala.(Economic Review. 2015)The major strength of Kerala banks is their large proportion of NRE deposits .Growth of advances and the flow of credit doesnt commensurate with the increased deposit mobilisation. Industrial advance by commercial banks have been unstable and fluctuating inspite of the higher deposit mobilisation in the state. Due to the concerted efforts of the state government and RBI, it has shown an increasing trend in recent years.It has increased from Rs. 29863 crores (2013) to Rs. 38479 crores (2014)showing a growth rate of 28 percent.

A primary survey was conducted among the entrepreneurs (100 units) in Kozhikode district to know about their opinion and awareness about the

facilities available for them in the case of bank finance. It was rather surprising that 80 percent of the respondents were not aware of these facilities .60 percent of the entrepreneurs were not interested in bank finance due to its cumbersome formalities and procedures.Out of 40 percent of the entrepreneurs who had availed the loan facility, 20 percent had availed overdraft facility and the remaining 20 percent had availed term loans from commercial banks.It can be very well inferred from the survey that while commercial banks very well supported the established firms at every stage , they are slightly hesitant to support young entrepreneurs coming forward with a viable project.The banks are not ready to compromise inthe case of collateral security that they demand for the loans they provide.The commercial banks in the state are not ready to take any risk which may affect their profitability.

CONCLUSION

It is highlighted that one of the major problems faced by MSME is lack of finance. Commercial banks amongst financial institutions remain the largest lenders to the MSMEs and hence, RBI has taken measures to ensure credit flow to MSME units without any delay.It may not be the availability of finance but their unawareness or disinterest in availing the facility may be a major factor. It is noted that small entrepreneurs prefer to avail finance from their family, neighbours or small lenders in their own locality. They are slightly hesitant to approach banks for their needs as they are not interested in the formalities of banks.So it becomes the responsibility of the bankers not only to provide loans but also to educate and train them about the facilities open for them and their benefits.In short, It is found that inspite of the guidelines given by Reserve Bank of India, neither the units are aware of the facilities open for them nor the commercial banks are following it. The role of MSMEs in the industrial development of the state has been rightly understood and all the necessary steps required for their development has been taken by the Government from time to time. The present government has started MUDRA bank ,particularly to ensure flow of credit to the micro and small scale industries in India. It may be a right beginning and targets the flourishing stage of Micro, small and medium Enterprises in India.

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