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Financial Inclusion and the Growth of Micro and Small Businesses

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ABSTRACT
Financial inclusion participants are those individuals or businesses involved in either direction of a financial transaction, whether they are financially included or financially excluded. Money often travels through the banking system, post offices, insurance, and FBFC channels. The MSE operates savings, current, or loan accounts with banks and engages in financial transactions with other government financial agencies as well as some NBFCs in the private sector. Through a number of recent initiatives from the Indian government and banking sector, including MNREGS, Jandhan, Atal Pension Yojna, MUDRA, and others, financial inclusion has performed better than before. Exclusive financial inclusion programmes for MSE credit include the MUDRA plan, credit programmes for MSE, KVIC, and Coir businesses, the Kishan credit card, and the General Credit Card. Less than 40% of MSEs receive benefits from scheduled commercial banks; as of 2017–18, the lending institutions only provided credit facilities totaling Rs. 1337 billion. The current situation and possibilities for financial inclusion at a certain level of employment and unit density are examined in the article.

Keywords: *atal pension yojna, financial inclusion, business, credit card, employment*

I. INTRODUCTION

The MSMED Act of 2006 provided the most recent definition of micro, small, and medium enterprises, converting entire businesses like Khadhi & Village, Coir, and tiny, small, and medium units into MSMEs with increased investment ceilings in plant, machinery, and equipment. With effect from October 2, 2006, the new micro-manufacturing ceiling is Rs. 25 lac, small Rs. 500 lac, and medium Rs. 1000 lac; the ceiling for services is Rs. 10 lac, small Rs. 200 lac, and medium Rs. 500 lac. The size of micro and small enterprises (MSE) is close to 99.96% of MSME. According to the MSME Government of India's annual report for 2011–12, there are 31.15 million MSME units, with investments totaling Rs. 7734.87 million, output of Rs. 10957.58 billion, and employment totaling 73.21 million. Less than 30% of MSEs' total unit size receives financial inclusion advantages, or 93 lac out of 311 lac units, have an account with one of the scheduling commercial banks. 56.64 million MSE have received just 1337.42 billion in financial credits from commercial banks as of 2017–18. According to Micro, Small, and Medium Enterprises (MSME) statistics, there were 63.38 million MSME units with a total of Rs. 22295 billion in investments, Rs. 32801 billion in outputs, 28.77% GVA in GDP, 110.98 million jobs, and Rs. 1337 billion in credit facilities provided by lending institutions as of March 2018. Since 1947, the Indian government's most successful programmes to influence the income and spending habits of rural and semi-urban residents have been Manregs and Jandhan. These days, mobile devices are also essential to financial inclusion. The government of India's socioeconomic welfare programme is one of the most effective tools for promoting financial inclusion since it involves the direct and indirect transfer of public funds into the economy's functions of saving and investing as well as income and expenditure. To save, invest, and receive direct benefit transfers (DBT) from various programmes like MNREGS, Jandhan, the Atal Pension Yojna, and the MUDRA programme, opening a bank account, a post office savings bank account, an account with an NBFC, purchasing insurance, etc., is the first level of financial inclusion. Through the economy's income-expenditure and saving-and-investment patterns, all of these are beneficial for introducing surplus funds into the banking system and/or the capital market.

Source: https://www.nodefaulters.com/article/the-micro-small-and-medium-enterprises-development-act-2006

Rangarajan's Committee (2008) stated that in the context of the Indian economy, "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." Financial inclusion covers the full spectrum of financial services, including savings, loans of all kinds, insurance of all kinds, credit, payments, and more recent forms of credit like general credit cards (GCC) and Kisan Credit Cards (KCC), small overdrafts, and credit provided to MSE in rural and urban areas by RBI-approved microfinance institutions. Financial inclusion for rural-based entrepreneurs with a capital of less than Rs. 25000 may rise as a result of the reduction of financial exclusion. A greater proportion of rural and urban entrepreneurs are financially excluded as a result of government machinery failure, which may be related to lending process bottlenecks and lending standards for small units. However, the RBI has taken a number of steps to enhance financial services for the MSE and financially excluded population. Financial inclusion (FI) can aid in the growth of capital formation, the reduction of poverty, and the efficient management of government socioeconomic programmes like MNREGA and PMEGS, among other things. The 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, and a simpler credit facility through a General Purpose Credit Card facility of up to INR 25000 are some of the actions taken by the RBI to ensure financial inclusion of MSEs. According to the results of the fourth micro, small, and medium enterprise census, micro and small businesses account for 100% of unregistered units and over 94% of all registered units. Less than 5% of unregistered units and only 11% of registered units, out of the total size of the units, receive institutional advances. This means that only 5.18% of the total size of MSE is financed by any of the scheduled commercial banks, with the remainder being managed by personal resources, friend-relatives, unauthorised NBFCs, chit-fund companies, private money lenders, and other sources at higher interest rates. Over 50% of all employees in unregistered units do not have any kind of savings account. Through increased savings and increased capital formation from their savings, financial inclusion is the most efficient approach to determining the pattern of growth of MSEs as well as the growth of the Indian economy. The potential drivers of financial inclusion as well as economic growth are the quantity of units and direct employment.

II. LITERATURE REVIEW

According to the 4th MSME Census Report from 2007, the lack of financial capital accounted for 21% of all sickness-related factors. A critical analysis of the SSI policy addressing investment caps, tax incentives, and credit support for prioritised sectors was provided by Rakesh Mohan in 2006. He made it clear that overall performance is lacking when compared to other developing countries. In his writings, he made the case that increased economic growth and liberalisation would strengthen the banking industry's involvement in the nation's financing of economic activity. Banks must mobilise funds from a larger deposit base and offer credit to previously unfinanced activities in order to meet the rising demand for credit. Vinayak (2006) examined a few problems involving SSI's production, credit policy, and competition in the age of globalisation. He placed emphasis on competition and financing availability. He asserted that increased competition and inadequate financial facilities have had a negative impact on MSE production. Only 20 out of 200 toy companies in Delhi manage to stay out of the red following economic liberalisation due to Chinese competition; the present credit facility is still restricted to 14.9% of the total SSI size. In spite of the fact that interest rates were being subsidised and there was an adequate supply of loan funds, Dario Cziraky et al. (2005) investigated the potential causes of Croatia's low loan acceptance rate. Banks favoured smaller businesses that asked for fewer loans among all SME loan requests. They proposed that there is no direct relationship between a bank's size and its preference for loans of different sizes and that each bank has its own criteria and lending policies. In Japan's SME lending market, Arito and Iichiro (2009) looked into what factors influence the use of collateral and personal guarantees. They claimed that the riskiness of the firm has little bearing on the likelihood that collateral will be used, but that the main banks with collateralized claims closely monitor their borrowers and that long-term borrowers are more likely to put up collateral. They recommended using collateral consistently since it helps the bank become more senior and improves screening and monitoring. Lakshmi and Murugan (2009) looked at the credit needs of SMEs as well as the challenges they experienced when trying to obtain bank financing. Their research shows that the majority of SMEs use banks' cash credit facilities and are made aware of them through their agents. Simple documentation has been scored #1 in terms of bank credit facility availability, followed by low interest rates, quick financing, reputation, length of repayment, and service. The report also shows that the bank's technology has advanced significantly in comparison to other areas, such as supporting rural residents, providing suitable loan options, and employee relations. We will cover the methodology and analysis of this work in the next part.

The Government of India has undertaken a number of measures, including the establishment of several research groups and committees, the conducting of censuses, and the creation of policies for improved performance in this sector, in order to understand the credit facility of micro and small sector units. The Karve Committee's 1955 research on SSI employment and growth is one of the most important committees and studies. The output-capital ratio was the subject of a 1955 study by P.N. Dhar and Lydall. The Abid Hussain Committee report on the loan facility to the SSI unit was published in 1997. P. R. Nayak led the RBI study on credit facilities for SSI in 1991 and 1997, while S. L. Kapoor led the SSI research on credit facilities for the SSI sector in 1997–1998. The third SSI census was recommended in the Planning Commission research report from 2000, which was led by the S.P. Gupta study group. According to Rakesh Mohan (2006), the banking industry will play a larger role in the financing of economic activities in the nation as a result of rising economic growth and increased liberalisation. Banks must mobilise funds from a larger deposit base and offer credit to previously unfinanced activities in order to meet the rising demand for credit. Greener pastures should result from the trend of increased commercialization of agricultural and rural activities, and banks should consider the advantages of increasing their penetration there. Financial inclusion will support financial deepening and give banks the resources they need to increase lending availability. (2007) Mandira Sarma, In recent years, many nations have prioritised financial inclusion in their policies. Governments, the banking sector, and financial regulators have all launched initiatives to promote financial inclusion. Mandira Sarma and Jesim Pais (2008) describe a cross-country empirical analysis of the relationship between financial inclusion and development. They found that, with a few exceptions, such as the requirement that the potential applicant have a savings account with one of the authorised financial institutions, levels of human development and financial inclusion in a country go hand in hand.

III. ANALYSIS AND METHODOLOGY

Examining the current situation and prospective prospects for financial inclusion given the number of units and employment is the goal of this article. Secondary data have been employed in this study to attain its goal. Secondary data sources include the Annual Report of SSI and MSME, the First, Second, and Third SSI Census, the Fourth MSME Census, several issues of the Economic Survey, the RBI Annual Report, and published research. Here, employment and unit count are exogenous variables since financial inclusion is an assumed endogenous variable. Performance analysis of MSE and Financial Inclusion has made use of the CAGR (cumulative annual growth rate) as well as other fundamental statistical techniques like mean value standard deviation and average percentage changes.

Table 1 demonstrates that between 1991 and 2018, all commercial banks extended credit totaling Rs. 8257.77 billion, of which PSB disbursed Rs. 6246.38 billion, private sector banks disbursed Rs. 1712.40 billion, and foreign banks disbursed Rs. 298.99 billion to MSME. The promoter invested a total of Rs 183388.31 billion in the MSEM sector, while a total of Rs 191646.08 billion was invested in total funds (capital infusion) for the MSME sector, with a 12.90% share of total capital coming from bank loans. This resulted in a total output of Rs 274225.14 billion. The average annual money inflow for the years 1991 to 2018 is Rs. 6844.50 billion, which includes the average annual amount of bank credit of Rs. 294.92 billion. The average annual production for the same time period was Rs. 9793.76 billion. Between 1991 and 2004, private sector banks' lending to MSME was essentially nonexistent, and lending by international banks was nonexistent as well.

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Table 1: Performance of MSE (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 approximated from several MSME and RBI annual reports, years 2004 to 18.

According to the table, the PSB accounted for 71.51 percent of all bank loans in 2018, while private banks came in second with 25.69 percent and foreign banks came in third with 2.80 percent. Bank credit from PBS and international institutions has decreased from the average level for the years 1991 to 2018, while bank credit from private sector institutions has increased from the average level for the years 1991 to 2018. The average growth rate of bank credit for MSME is 18.34%, for PSB it is 16.65%, for private banks it is 40.71%, and for foreign banks it is 14.36%. PSB bank credit growth is 18%; private sector bank credit growth is 24%; foreign bank credit growth is 12%; and overall bank credit growth is 19.30%.

With the exception of the MSE illness rate, Table 2 shows that the overall CAGR during the pre-liberalisation period was better than the post-liberalisation period. Due to an increase in the investment ceiling and, respectively, the merging of KVI and the Coir industry with MSEs, the investment and employment performance in the new data series is slightly better. Pre-globalisation period indicator average percentage changes were better than post-globalisation period values.

Table 2: Shows the CAGR and average percent change for various MSE performance measures.

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 % Changes	CAGR %	Average of % Changes	CAGR %	Average of % 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 evident that the pre-liberalisation period showed greater CAGR and average percentage growth than the post-liberalisation period in terms of unit count, fixed investment amount, production, employment, and export.

In the post-liberalisation era, notably after 2002–2003, the rate of illness has decreased, which is encouraging for MSE.

It has been noted that there is a very low correlation between credit facility volume and overall unit, investment, and output numbers. It has been rising since the Nayak Committee as a result of numerous economic, international, and political forces. Poor and unfavourable results are also revealed by the correlation coefficient between the variables. The ordinary least squares method demonstrates that a weak dependence on independent variables is the cause of lower output. The article closes by stating that post-liberalisation policies (1991–2018) concerning MSE credit, interest rate policies, credit rationing for MSE, priority sector policies for credit to MSE, and openness for private and foreign banks in MSE finance are all very positive. If we provide MSE with more credit, our production will increase, which will boost the productivity of major sector firms, agricultural output, export earnings, and employment. The marginal productivity of credit relative to output is very high.

IV. CONCLUSION

The debate above leads to the conclusion that private banks and foreign banks are contributing more to MSME lending than PSBs in terms of the total amount of bank credit. When compared to the average bank credit from 1991 to 2018 (2004–2005), bank credit from private sector banks has grown. The average growth rate of bank credit for MSME is 18.34%, for PSB it is 16.65%, for private banks it is 40.71%, and for foreign banks it is 14.36%. With the exception of the sickness rate, the CAGR and average percentage change figures of all performance metrics are down since globalisation. Through this study, it is suggested that the Indian government review its investment and financial inclusion policies in order to improve the interdependence between MSE and financial inclusion. The performance of banks is bad, which causes the performance of MSE to slow down for a variety of policy reasons. If the monetary and fiscal authorities enhance the level of financial inclusion, the performance of MSE will increase. The performance of MSE will grow as financial inclusion on the bank side increases, and vice versa.

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