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A STUDY OF ROLE OF PRIORITY SECTOR LENDING IN THE DEVELOPMENT OF SMALL SCALE INDUSTRY

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Abstract

MSME plays a vital role in financial development widely in urban areas. The latest survey has shown that MSME contributes nearly 8% of India's Gdp. The sector has faced significant challenges regarding finance. The Indian government introduced MSME in 2006 to aid the small and neglected sector of the community which faced trouble due to weaker economic conditions. The welfare motto of MSME helps the workers and the artisan by lending the money. This type of funding creates opportunities among the microfinance sector which foster employment. The credit limit operated by the bank. Moreover it promotes skill-base learning platform for industrial ready performers. Retrospect some significant reports it is observed that fundamentally the economic distribution of the sector is not well. The weaker financial support of MSME negatively impacted the beneficiary including entrepreneur, small agricultural industries. The financial barrier disrupted the natural growth of MSME. Both parties bank and the beneficiary has a huge negligence regarding funding. Several bottlenecks in the fundamental structure of MSME run due the Governing concern and timely credit flow. The following context has signifies important factors of SME and agricultural PSL public private banks to financial management to clarify Financial issues in MSME.

Key Word: MSME Finance, PSL, Agricultures' and Economic Development.

I. Introduction

Since the nationalization of the financial institutions in 1969, the role of banks in the economic development of India has been changed drastically. Government of India has rightfully identified the importance of providing banking facilities to address a range of

channels such as lack of infrastructural facilities for the growth of economy and reduction in unemployment and poverty, the social and economic development of the poor need to provide access to credit facilities in order to consider socio-economic development in both rural and urban areas. For this reason, the government of India has decided to implement priority sector lending in 1972 that distinctively helped in fast social and economic progress of the Indian population. The primary reason behind the implementation of priority sector lending was to transform the credit framework within the neglected sector within the economy and weaker portion of the community. One of the key issues in post-independent India is to generate employment. By focusing on the repressed portion of the economy through structural implementation of credit line the government can effectively generate employment opportunities in different parts of the society. Moreover, it can help in achieving economic development that is decentralized which is one of the primary objectives of the Government in recent times. Various studies have identified that addressing different drivers of economic development such as innovation and employment, the overall growth of the Indian population can be fostered. In terms of considering the growth of the MSMEs, access to finance poses as one of the most crucial challenges. Hence, it is very crucial for the government to create opportunities for MSME in order to reduce the poverty by advancing economic development. It has been identified that in the past few years, MSME sector in India have managed to sustain the common challenges as the sector saw a Year to year growth of 10 percent that provided the sector with the ability to integrate sustainable innovation within the organization. Today MSMEs are identified to be the largest employer of the country, responsible for generating more than 111 million jobs. As per recent data, there are around 63 Million small and medium enterprises in the country that contributes to approximately 28 percent of the GDP of the nation. Not only is that, MSMEs also responsible for more than 41% export of the country. Hence, the role as well as relevance of MSME is one of the key driving forces in continuous growth of Indian society to drive the country towards an extremely strong economy.

It can be identified that banks and other financial institutions are identified to be the most evident source of finance in India. In order to address this, RBI included small and micro enterprises in the top of the list of priority sector lending. Moreover, the reserve bank also addressed the financial institutions to foster growth of around 20% in terms of providing credit to small and micro enterprises and n annual growth of 10% in terms of volume of small

and micro enterprise accounts. In order to support the sector o different ways and managing smooth flow of credit, the government of India has opted for new regulations and policies.

II. **Literature Review**

There are a range of factors includes within the smooth flow of banking services in SMEs. In this connection Abraham and Schmukler (2017) has identified that low observed structurization and use of financial services by SMEs can be effectively explained by factors associated with both demand and supply. In a typical financial scenario, a problem related to supply typically occurs in instances such as inability to get external although having profitable projects in Hands. There are demand side problems as well as some SMES are typically not creditworthy. During this case, creditors fail to extend credit due to fear of losses unless lending seems to be subsidized. It can be identified that the SME finance can also be hampered by different macroeconomic environment For instance, in case a government runs a fiscal deficit, banks tend to find it risky or profitable to fund the government instead of private sector lending. Hence, it could substantially reduce the availability of credit line to the SMEs. In developing countries like India and Brazil, Public credit guarantee scheme is identified to be the primary guarantee scheme and a key to swift lending and recovery. For SMEs, movable assets such as accounts receivables and machineries account for the majority of the asset of the firm. However, it can be identified that in developing, banks do not accept these assets to be collateral. In this context, banks typically look for immovable assets that are less likely to be the subject to owner ship disputes. According to the study of Singh and Wasdani (2016), the life cycle of an enterprise can be segmented in four stages. These are start ups, Survival, Growth and Sustenance stage. Enterprises that are within the start up stage tend to use funds from savings, families and friends as a purpose of working capital. Public sector banks are also used for collateral financing and working capital. Enterprises that run within the survival stage typically break even in alignment with the investment. Thus, these enterprises tend to seek requirement from formal as well as informal sources. Within the growth stage, public banks are used for collateral financing and working capital as well as short term loans. As per Sinha (2012), in recent times, there is distinctive move towards the credit availability is essential for socio-economic growth of the community in village and urban areas. Indian banking sectors provided debt in 1972 for the first time and generated revolution in the financial sector and

boosted the social progression. The main objective of the MSME sector is to lend funds to the small medium industries and help the weaker section of the society. As far as possible worked by the bank. Moreover it advances the expertise base acquiring stage for modern prepared entertainers. Retrospect a few critical reports it is seen that in a general sense the monetary conveyance of the area isn't well. The more vulnerable monetary help of MSME adversely affected the beneficiary including business visionary, little agrarian enterprises. The monetary hindrance upset the regular development of MSME. The two player's bank and the beneficiary have an enormous carelessness with respect to financing. Moreover, it can be identified that MSMEs are typically considered to be agile as well as flexible. They can leverage on qualities ion terms o capitalization on innovation. As per Yadav (2014), officials of banks and other financial institutions are required to integrate talent management and leadership in order to foster credit supply that is uninterrupted. As per the expert committee of RBI on MSME (2019), it can be identified that it is crucial to foster important legislations related to the development of credit line in MSMEs. In current scenario, Credit guarantee is considered to be one of the most prominent risk mitigation tools that help that provides strong support to the lenders for lending to MSMEs. In current scenario, NCGTX and CGTMSE have developed credit guarantee schemes for providing loans to MSMEs. However, it can be identified that the entities are outside the scope of regulations. Hence, it can be proposed that all the credit guarantee schemes should be subject to supervision and regulation by RBI. While understanding the supervisory guidelines, RBI can foster design implementation for the schemes that are evolved by World Bank.

III. Research Methodology:

Research methodology is identified to be a theoretical and systematic analysis of the selected methods integrated through any field of study. In this research, only secondary data has been taken into consideration for the purpose of the study. A range of secondary data was collected from the ministry of small and medium enterprises, micro and working papers from IFC, report of SIDBI, RBI report on MSME, journals, research papers and publications.

Objectives of the Study

1. To analyze the agricultural PSL of public and private banks.

2. To analyze the small scale industries PSL of public and private banks.

3. To know the Problem of MSME Finance

IV. Data Analysis and Interpretation

ANALYSIS OF AGRICULTURE PSL OF PUBLIC AND PRIVATE BANKS:

RBI also prescribed that from total 40 percent of PSL, 18 percent should be given to Agriculture PSL. Table below shows the agriculture PSL lending in the study period by public and private bank. It is clear from table 4.3 that on an average public sector banks Agriculture PSL is 16 percent and private sector banks Agriculture PSL is 14 percent. So Banks are not able to fulfill Agricultures PSL target in study period.

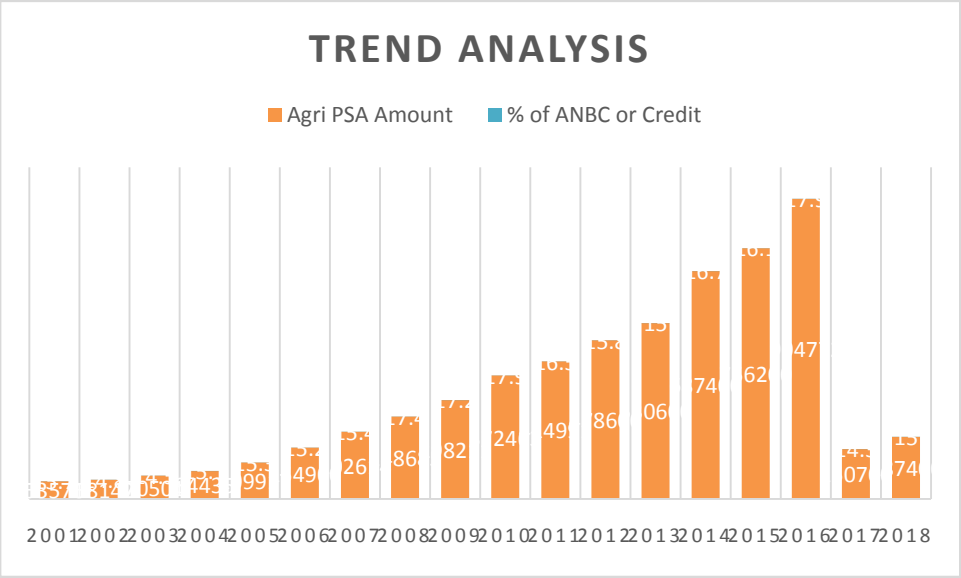
Year	**Public Sector Banks**		**Private Sector Banks**	
	Agri PSA Amount	**% of ANBC or Credit**	**Agri PSA Amount**	**% of ANBC or Credit**
2001	53571	15.7	5634	9.6
2002	58142	14.8	6381	8.5
2003	70501	14.5	9924	10.9
2004	84435	15.1	14730	14.2
2005	109917	15.3	21633	12.3
2006	154900	15.2	36185	13.5
2007	202614	15.4	52034	12.7
2008	248685	17.4	57702	15.4
2009	298211	17.2	76062	15.9

2010	372463	17.9	90737	19.4
2011	414991	16.5	92136	15.7
2012	478600	15.8	104200	14.3
2013	530600	15	111900	12.8
2014	687400	16.7	147800	14
2015	756200	16.1	181800	14.7
2016	904772	17.9	268857	18.3
2017	150700	14.3	276200	16.5
2018	187400	15	318300	16.2

Source: Compiled from RBI Annual Report (2000 to 2018) and Report on Trend and Progress of Banking in Indian (2000 to 2018) and https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#!4

It is clear from graph that both public banks and private banks are not able to fulfill Agriculture PSL target in the study period of 2000 to 2018 expect year 2018.

Agriculture PSL Targets Achievement of Public and Private Banks



Trend analysis of Agriculture PSL is done with the help of regression analysis mention as: Agriculture PSL = α +β (time in years). Where Agriculture PSL is dependent variable, α is intercept, and β shows trend in Agriculture PSL per year.

TREND ANALYSIS OF SSI PSL OF PUBLIC AND PRIVATE BANKS:

There is no separate prescribed target for SSI PSL by RBI in the study period. It is considered within the overall target of 40 percent to PSL. The SSI PSL of public and private banks is shown below in table below.

Table. SSI PSA of Indian Commercial Banks

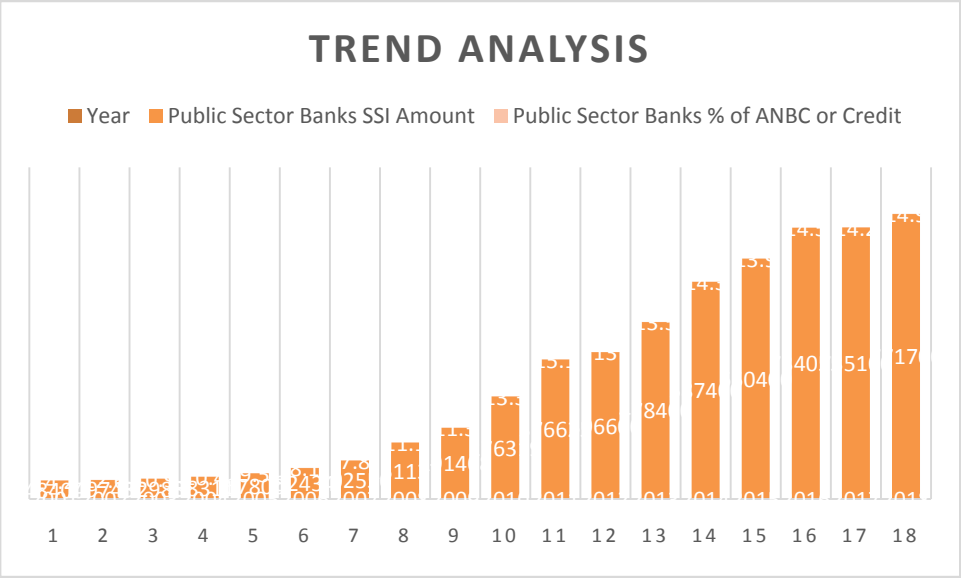
(Amount in Rupees Crores)

Year	**Public Sector Banks**		**Private Sector Banks**	
	SSI Amount	**% of ANBC or Credit**	**SSI Amount**	**% of ANBC or Credit**
2001	48400	14.2	8158	13.9
2002	49743	12.6	8613	13.7
2003	52988	10.9	6857	8.3
2004	58311	10.4	7590	7.4
2005	67800	9.5	8592	5.4
2006	82434	8.1	10447	4.2
2007	102550	7.8	13136	3.9
2008	151137	11.1	46912	13.7
2009	191408	11.3	46656	11.5
2010	276319	13.3	64825	12

2011	376625	15.1	87857	16.5
2012	396600	13	110500	15.2
2013	478400	13.5	141700	16.2
2014	587400	14.3	186800	17.7
2015	650400	13.9	216600	17.5
2016	734055	14.5	292342	19.9
2017	735100	14.2	350900	11.4
2018	771700	14.9	368500	11.5

Source: Compiled through RBI Annual Report (2000 to 2018) and Report on Trend and Progress of Banking in Indian (2000 to 2018) and https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#!4

Trend analysis of SSI PSL is done with the help of regression analysis mention as: SSI PSL = α +β (time in years)



Problems in MSME finance:

Among different sources of finance, banks loans are gradually becoming popular among MSMEs because of several reasons such as timely credit at an exorbitant interest rate from

sources that are non-institutional and increased bank branches across the country. However, it can be observed that although there are a range of constraints to MSME finance, despite of regulations and policy initiatives by the reserve bank of India as well as government of India. This is primarily because banking system in India is significantly small relative to the debt demand in this sector. From the perspectives of the banks, MSMEs are considered to be high risk borrowers due to low capital and insufficient asset. The sector is distinctively vulnerable to economic fluctuations and market. Sickness of units is another fear in this industry. As per 2016 RBI data, there are more than 480000 micro and small enterprises in India that accounts for 327 billion of Outstanding credit. Compared to larger firms, MSMEs tend to be more opaque due to significantly less public availability of key information. As a result, banks often find it very difficult to assess MSMEs creditworthiness. It can distinctively affect the lending. One the other hand, lenders can use higher requirement of collaterals as a substitute of lack of Information.

Collaterals are an area that is also lacked in case of Indian MSMEs due to which they often fails to get adequate and timely finance information asymmetry typically results in deficit in bank loans. In most cases, there is a significant dependency on the cash transactions which points out the fact that reported data is distinctively different than actual profitability and sales figures. This difference particularly arises as a result of lack of documentation of small ticket cash transactions.

Moreover, MSMEs often cannot get timely credit due to number of reasons such as lower margins, higher cost of transactions, row-risk appetite for banks and lack of product innovation. One of the key factors in this context is NPA that is responsible for developing fears among the financial organizations to provide loans. NPA yearly data suggested that NPA grew 12% in case of MSMEs compared to 10.8% in large enterprises.

VI. Conclusion

In spite of integration of a range of schemes and policies f4om the RBI as well the government of India, the sector is struggling to get adequate and timely finance. The problem typically persists in case of both banners as well as entrepreneurs. In recent times, India has witnessed a number of innovative yet small startups that has the potential to growth distinctively over time. However, in order to foster growth, these organizations would require

assistance in the form of timely credit and risk capital. In recent times, it has been identified that MSMEs are making partnership with larger firms in bring out products that are competitive in nature. Although it can be seen that a huge amount of MSMEs are becoming sick, the rate of NPA is still less than the large companies. Hence, the financial organizations and the banks should consider this particular fact at the first place.

It is also very important to understand that banks are required to diversify their services in unbanked or remote areas; banks typically have an important role in terms of creating several issues faced by the MSMES. Banks are required to think about themselves as a partner in enterprise growth rather than simple credit provider. Bank should; moreover focus on providing financial management services to the borrowers in order to provide them with support and guidance. Separate management and industrial consultancy departments can be developed in order to address the market gaps and functional issues. In order o foster inclusive growth, the banks can integrate credit guarantee scheme that plays a distinctively major role in the accountability of the borrowers. Hence these schemes are required to be popularized b the banks at the first place.

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