Scope of MSMEs and Role of the Public Sector Banks
CHAPTER III

SCOPE OF MSMEs AND ROLE OF PUBLIC SECTOR BANKS

3.1 INTRODUCTION

This chapter explains scope of MSMEs and the various aspects of services offering by Public Sector Banks.

The MSME sector has been considered as a vibrant and dynamic sector in the industrial scenario of India and the sector acts as an engine for the economic growth of the country by means of its contribution towards employment generation, export earnings, production and assisting in satisfying the requirement of medium and large scale industries. Countries like India that are thickly populated and industrially progressive are highly depending on this sector for promotion of employment opportunities for the citizens of the country and attaining the balanced economic and regional growth.

The growth of this sector also contributes significantly in the development of entrepreneurial skills among the people, decentralization of ownership, elimination of monopoly power in the market, avoidance of concentration of wealth and power and to ensure the balanced economic and social development of the country.

MSME Act

The initiatives taken from the government enable the MSME to enhance their competitive strength, address the challenges of competition and avail the benefits of global Market. Enactment of the Micro, Small and Medium Enterprises (MSMEs) Development Act 2006, operative from October 2006 is an important landmark in the development of the sector. It provides the first-ever legal framework for recognition of the concept of enterprise (comprising both manufacturing and services), and integrating the three tiers of these enterprises.

Under the Act, enterprises have been categorized broadly into those engaged in (i) Manufacturing, and (ii) providing services. Both the categories have been further classified into Micro, Small and Medium enterprises, based on gross investment in plant and machinery for manufacturing enterprises, and in equipment in case of enterprises providing or rendering services, as shown in the Exhibit.
TABLE 3.1
INVESTMENT LEVEL OF MSMEs

<table>
<thead>
<tr>
<th>ENTREPRISES</th>
<th>MANUFACTURING</th>
<th>SERVICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Enterprise</td>
<td>Upto Rs.25 Lakhs</td>
<td>Up to Rs.10 Lakhs</td>
</tr>
<tr>
<td>Small enterprises</td>
<td>Above Rs.25 Lakhs to 5 Crores</td>
<td>Above Rs.10,00,000 to Rs.2 Crores</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>Above Rs.5 crores to 10 Crores</td>
<td>Above 2 crores to 5 Crores</td>
</tr>
</tbody>
</table>

Source: Secondary Data

3.2 SIGNIFICANCE OF MSME SECTOR

MSME sector in India plays a dominant role in attaining the balanced and sustainable industrial and economic development, employment generation and development of entrepreneurial skills among the people of the country and increasing the export earnings of the country. The contribution of this sector towards meeting the above stated objectives can be understood from Table 3.2.

TABLE 3.2
SIZE OF THE MSME SECTOR IN INDIA

<table>
<thead>
<tr>
<th>S.No.</th>
<th>DETAILS</th>
<th>MICRO</th>
<th>SMALL</th>
<th>MEDIUM</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Manufacturing Enterprises (units)</td>
<td>9,74,609</td>
<td>57,666</td>
<td>2,828</td>
<td>10,35,103</td>
</tr>
<tr>
<td>2</td>
<td>Service enterprises (units)</td>
<td>5,01,072</td>
<td>15,915</td>
<td>402</td>
<td>5,17,380</td>
</tr>
<tr>
<td>3</td>
<td>Total number of MSMEs</td>
<td>14,75,681</td>
<td>73,581</td>
<td>3,230</td>
<td>15,52,492</td>
</tr>
<tr>
<td>4</td>
<td>Percentage of distribution of units</td>
<td>95.05</td>
<td>4.74</td>
<td>0.21</td>
<td>100</td>
</tr>
<tr>
<td>5</td>
<td>Percentage of Share of Manufacturing Units</td>
<td>94.16</td>
<td>5.57</td>
<td>0.27</td>
<td>66.67</td>
</tr>
<tr>
<td>6</td>
<td>Percentage of share of Service Units</td>
<td>96.85</td>
<td>3.08</td>
<td>0.08</td>
<td>33.33</td>
</tr>
</tbody>
</table>

Source: (RBI Annual Report on trends and progress of Banking in India 2009-2010)
It can be seen from the Table 3.2 that Micro sized units constitute the major share as 95 per cent of the overall MSME sector in India. In particular, Small units are being just under five per cent and Medium sized units forming hardly 0.21 per cent.

3.3 COMMON CHARACTERISTICS OF MSMEs

(i) Born Out of Individual Initiatives and Skill

SME start-ups tend to evolve along a single entrepreneur or a small group of entrepreneurs in many cases leveraging on a skill set. There are other SMEs being set up purely as a means of earning livelihood. These include many trading and retail establishments while continuing SMEs as to manufacturing services, others adopt a broader definition and include retailing as well.

(ii) Greater Operational Flexibility

The direct involvement of owner(s), coupled with flat hierarchical structures and less number of people ensure that there is greater operational flexibility. Decision making such as changes in price mix or product mix in response to market conditions is possible to the MSMEs in a speedy manner.

(iii) Low Cost of Production

SMEs have lower overheads. This translates to lower cost of production, least upto limited volumes.

(iv) High Propensity to Adopt Technology

Traditionally MSMEs have shown a propensity of being able to adopt and internalize the technology being used by them.

(v) High Capacity to Innovate Export

MSMEs skill in innovation, improvisation and reverse engineering are legendary. By being able to meet niche requirements, they are also able to capture export markets where volumes are not huge.
(vi) High Employment Orientation

MSMEs are usually the prime drives of jobs, in some cases creating up to 80 per cent jobs. MSMEs tend to be labour intensive per se and are able to generate more jobs for every unit of investment, compared to their bigger counterparts.

(vii) Reduction of Regional Imbalances

Unlike large industries where divisibility of operations is more difficult, MSMEs enjoy the flexibility of location. Thus, MSMEs can be found spread virtually right across, even though some specific locations emerge as ‘clusters’.

3.4 MSMEs IN INDIA

India has a vibrant MSME sector that plays an important role in sustaining economic growth, increasing trade, generating employment and creating new entrepreneurship in India. In keeping in view its importance, the promotion and development of MSMEs has been an important plan in our policy for industrial development and a well-structured programme of support has been pursued in successive five-year plans. MSMEs in India have recorded a sustained growth during last five decades. The number of MSMEs in India is estimated to be around 13 million while the estimated employment provided by this sector is over 31 million. The MSME sector accounts for about 45 per cent of the manufacturing output and over 40 per cent of the national exports of the country.

PROFILE OF MSME SECTOR IN INDIA

MSME sector serves as the backbone for a nation like India. A dynamic and vibrant ‘Indian MSME sector’ acts as an engine of growth and a proactive agent for sustainable development and industrial prosperity. The Contribution of MSMEs in India is presented in Table 3.3.
TABLE 3.3
CONTRIBUTION OF MSMEs IN INDIA

<table>
<thead>
<tr>
<th>S.No</th>
<th>Details</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Total Industrial Production</td>
<td>40 per cent</td>
</tr>
<tr>
<td>2.</td>
<td>Total Industrial Units</td>
<td>Over 12 Million</td>
</tr>
<tr>
<td>2.</td>
<td>Wide range of Products</td>
<td>6000 products</td>
</tr>
<tr>
<td>3.</td>
<td>Workforce Employed</td>
<td>Around 29 Million</td>
</tr>
<tr>
<td>4.</td>
<td>National Exports</td>
<td>34 Per cent</td>
</tr>
<tr>
<td>5.</td>
<td>ISO Certified Units</td>
<td>Over 21,000 Units</td>
</tr>
</tbody>
</table>

Source: (http://www.smechamberofindia.com/challenges 27 Nov 2009)

In India Micro, Small and Medium Enterprises (MSMEs) consists more than 90 per cent of the private sector. There are over twelve million MSMEs in India in various sectors. Their contribution in the total industrial production is approximately 40 per cent. Removal of quantitative restriction in the early 2000s and reduction of import duties in the last ten years has opened the MSMEs sector to severe competition in the domestic as well as foreign market. To survive with the tough competition the sector has become more quality and product conscious.

Keeping in view the rapid changes in the Indian economy in the last decade, MSMEs sector has performed fairly well. The growth of MSMEs sector in the last eight years has been more than that of the growth of other industrial sector. The average growth of MSMEs sector in the last eight years has been 8 per cent, whereas for the other industrial sector it has been only 5 per cent.

**Problems of MSMEs**

Despite its commendable contribution to the Nation's economy, MSME Sector does not get the required support from the concerned Government departments, banking sector, financial institutions and corporate sector, which is a handicap in becoming more competitive in the national and international markets and which needs to be taken up for immediate and proper redressal. MSME sector faces a number of problems - absence of
adequate and timely banking finance, limited knowledge and non-availability of suitable technology, low production capacity, follow up with various agencies in solving regular activities and lack of interaction with government agencies on various matters.

i) Financial Problems

The financial problem of MSMEs is the root cause for all the other problems faced by the sector. The small and medium industrialists are generally poor and there are no facilities for cheap credit. They fall into the clutches of money lender who charges very high rates of interest, or else they borrow from the dealers of their goods, who exploit them by completing them to sell their products at very low price.

After the nationalization of 14 major Indian Banks in July 1969, the Commercial banks have been providing only a small proportion of MSMEs financial requirements. Credit to the SME sector continues to be non-commensurate with its contribution to the total industrial output. As against the share of the village and MSMEs at 40 per cent in the industrial output, its share in total credit to the industrial sector is only about 30 per cent.

ii) Raw Material Problem

This difficulty is experienced in a very pronounced form. The quantity, quality and regularity of the supply of raw materials are not satisfactory. There are no quantity discounts, since they are purchased in small quantities and hence charged, higher prices by suppliers. Difficulty is also experienced in procuring semi-manufactured materials. Financial weakness stands in the way of securing raw materials in bulk in a competitive market.

iii) Production Problem

MSME units suffer from inadequate workspace, power, lighting and ventilation, and safety measures etc. These shortcomings have tend endanger the health of workers and have adversely affected the rate of production. Many units are following conventional methods of production. Adoption of modern techniques is either disliked by the entrepreneurs is not feasible. Wage rates and service conditions of small industries are not attractive to skilled labour.
iv) Technological Problem

Today technology is changing at a very fast phase; it becomes difficult for MSMEs to cope up with changing technology. Technology upgradation and the frequent need to renew the equipment has emerged as a big problem.

v) Marketing problem

As marketing is not properly organized, the helpless artisans are completely at the mercy of intermediary. The potential demand for their goods remains under developed. The MSMEs have to face the competitions from large-scale units in marketing their products. It causes damage to the growth and stability of MSMEs. MSMEs cannot afford to spend lavishly for advertisement to promote their sales.

vi) Managerial problem

Small-scale industries in our country have suffered from the lack of entrepreneurial ability to develop initiative and undertake risks in the unexplored industrial fields. The inefficiency of management comes first among managerial problems. The entrepreneurial ability of promoters of cottage industries and MSMEs are handicapped by technical knowhow in the areas of production, finance, accounting and marketing management.

vii) Sickness

A serious problem, which is hampering Micro, Small and Medium Sector, has been sickness. Many small units have fallen sick due to one problem or the other. Sickness is caused by two sets of factors, Internal and external factors. High rate of capital gearing, inadequacy of finance, short of raw materials, out-dated plant and machinery, low labour productivity etc. The reasons attributed to the sickness of MSMEs are presented in Figure 3.1.
FIGURE 3.1 REASONS FOR SICKNESS OF MSMEs

Source: (http://milagrow.in/k-solutions/msme-planet/sickness)

The Figure 3.1 shows that finance has been the major reason for the sickness of SME units. The other major reasons are ineffective management and technology upgradation according to the latest technological changes.

Need of the Hour

The need of the hour for Indian MSMEs is to upgrade their technology, quality and adopt modern management techniques to keep pace with the changes that are taking place in the global market. Investment would be a prerequisite in these areas to bring about transformation. The availability of adequate credit at affordable cost, thus, becomes critical for Indian MSMEs. SIDBI is the national level principal financial institution for promotion, financing, and development of MSMEs.

To empower the MSME Sector to take its rightful place as the growth engine of Indian economy, it is necessary to support the MSMEs, educate, and empower them to make optimum utilization of the resources, both human and economic, to achieve success. The MSMEs need to be educated and informed of the latest developments taking place globally and helped to acquire skills necessary to keep pace with the global developments. MSME Chamber of India has decided to start various activities to empower and educate the MSME Sector by organizing various trade promotional activities in India and abroad. In addition, providing assistance and support for the promotion of domestic business as well as export promotion of the MSME sector.
To encourage the growth of MSMEs in India, government has reserved certain products for manufacture in the MSME sector in areas where there is techno-economic justification for such an approach. Large/Medium units can, however, manufacture such reserved items provided they undertake to export 50 per cent or more of their production.

### 3.5 PRODUCTS OF MSMEs

The Table 3.4 gives the details about the products manufactured by the MSMEs in India.

<table>
<thead>
<tr>
<th>S.NO</th>
<th>TYPE OF INDUSTRIES</th>
<th>NATURE OF PRODUCTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Food and Allied Industries</td>
<td>Pickles and Chutneys, Bread, Mustard Oil Ground nut oil.</td>
</tr>
<tr>
<td>2.</td>
<td>Wood and Wood Products</td>
<td>Wooden furniture and fixtures</td>
</tr>
<tr>
<td>3.</td>
<td>Paper Products</td>
<td>Exercise books and registers</td>
</tr>
<tr>
<td>4.</td>
<td>Injection Moulding</td>
<td>PVC Pipes</td>
</tr>
<tr>
<td></td>
<td>Thermo Plastic Product</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Other Chemicals and Chemicals</td>
<td>Wax candles, Laundry soap, Safety matches, Fireworks, Agarbatties</td>
</tr>
<tr>
<td>6.</td>
<td>Glass &amp; Ceramics</td>
<td>Glass Bangles</td>
</tr>
<tr>
<td>7.</td>
<td>Mechanical Engg. Excluding</td>
<td>Steel Almirah, Rolling shutters, Steel chairs – all types, Steel tables – all other types, Steel furniture – all other types, Padlocks, Stainless steel utensils, Domestic utensils – Aluminium</td>
</tr>
<tr>
<td></td>
<td>Transport Equipment</td>
<td></td>
</tr>
</tbody>
</table>


### 3.6 ROLE OF PUBLIC SECTOR BANKS (PSB) IN DEVELOPING MSMEs

The origin of banking in India can be traced back to the last decades of the 17th century. The General Bank of India and the Bank of Hindustan, which started in 1786 were the first banks in India. The Reserve Bank of India acts as a centralised body which monitoring any discrepancies and shortcomings in the system.
The central government entered the banking business with the nationalization of the Imperial Bank of India in 1955. A 60 per cent stake was taken by the Reserve Bank of India (RBI) and the new bank was named as the State Bank of India. The seven other state banks became the subsidiaries of the new bank when nationalised on 19 July 1960. The next major nationalisation of banks took place in 1969 when the government of India, nationalised an additional 14 major banks. The total deposits in the banks nationalised in 1969 amounted to 50 crores. This move increased the presence of nationalised banks in India, with 84 per cent of the total branches coming under government control. The next round of nationalisation took place in April 1980. The government nationalised six banks. The total deposits of these banks amounted to around 200 crores. This move led to a further increase in the number of branches in the market, increasing to 91 per cent of the total branch network of the country.

The objectives behind nationalisation is to separate the ownership and control of banks by a few business families, to prevent the concentration of wealth and economic power, to mobilise savings from masses from all parts of the country and to cater to the needs of the priority sectors. PSBs had pre-conceived basket of products and services made available to the public and they were established and functioned as instruments of social change and have played a pivotal role in developing the Medium, Small scale Enterprise (MSME) sector.

During the last fiscal year 2010-11, the PSBs in India achieved 22.44 per cent credit growth, witnessing 35 per cent growth in MSME credit as compared to the 20 per cent target along with robust agricultural credit of more than Rs 4,46,000 crore. The share of outstanding credit to Micro Enterprises vis-à-vis total outstanding credit to MSME sector by PSBs stood at 46.80 per cent as on March 2010 that declined marginally to 46.24 per cent in March 2011 as against the target of 50 per cent for the year 2010-11.

3.7 MAJOR INSTRUCTIONS ISSUED TO PUBLIC SECTOR BANKS SUBSEQUENT TO THE POLICY ANNOUNCEMENTS

Based on the Policy Package as announced by the Union Finance Minister, some of the major instructions issued by Reserve Bank to all public sector banks were as under:
Public sector banks were advised to fix their own targets for funding SMEs in order to achieve a minimum 20 per cent years on year growth in credit to SMEs. The objective is to double the flow of credit from Rs. 67,600 crore in 2004-05 to Rs. 135,200 crore to the SME sector by 2009-10, i.e. within a period of 5 years.

I. Public sector banks were advised to follow a transparent rating system with cost of credit being linked to the credit rating of the enterprise.

II. All banks, including Regional Rural banks may make concerted efforts to provide credit cover on an average to at least 5 new small/ medium enterprises at each of their semi-urban/ urban branches per year. The banks may ensure specialized SME branches in identified clusters/ centres with preponderance of small Enterprises to enable the entrepreneurs to have easy access to the bank credit.

3.8 ENTREPRENEURIAL SERVICES OF PUBLIC SECTOR BANKS

In recent times, public sector banks have not confined themselves to mere extension of finance to small entrepreneurs but have shown genuine concern for their development. They have now entered the challenging field of promoting new small-scale entrepreneurs through entreprenship development programmes in their new role as promoters of small-scale sector they have accepted yet another challenging task.

They are now holding Entrepreneurial Development Programme (EDP), in collaboration with specialized institutions such as District Industrial Centre (DIC), Tamil Nadu Industrial and Investment Corporation (TIIC) etc. with a view to identifying entrepreneurs, especially in backward areas and training and monitoring them to start new ventures.

Banks are playing a major role in financing MSMEs in India. Nearly 82 per cent of the total SME financing through banks. In addition, among them the major share is of public sector banks i.e. 57 per cent. Thus, it is clear that the most common source of finance for SMEs is Bank Financing. There is number of banks that help in assisting the SMEs for financing. The main channel used by the MSMEs via banks is Specialized loans by various Banks. The Main reason for choosing bank loans by SMEs compared to other sources of financing like venture capital.
The role of Banks, in general, has become very important in the above context. The MSME sector’s demands comprehensively taken care of by the Public sector Banks through several initiatives such as

1. Single Window dispensation.
2. Quick decision with least Turnaround Time through specially constituted MSME Cells, and above all Better service.
3. Cluster-based Schemes are also on the list of the Bank’s initiatives.
4. Provision of timely and adequate credit to the MSMEs.
5. Encouraging Technology Up gradation, for better quality and competitiveness of their product(s), and proactively detecting sick and viable units in time so as to nurse them back to health through appropriate re-structuring.
6. Financing of Clusters with adequate and concessional Bank finance on liberal terms in several pockets for specified activities concentrated in these pockets, which would result in reducing transaction cost and greater economies of scale.

3.9 CREDITS TO MSME SECTOR FROM PUBLIC SECTOR BANKS

**TABLE 3.5**

**STATUS OF CREDIT FLOW TO THE MICRO AND SMALL ENTERPRISES**

<table>
<thead>
<tr>
<th>Bank Group / Bank</th>
<th>Manufacturing Enterprises</th>
<th>Service Enterprises</th>
<th>Advances to Khadi &amp; village industries sector</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.of Accounts</td>
<td>Amount Outstanding</td>
<td>No.of Accounts</td>
</tr>
<tr>
<td>-------------------</td>
<td>--------------</td>
<td>--------------------</td>
<td>---------------</td>
</tr>
<tr>
<td>A. State Bank Group</td>
<td>10.20</td>
<td>41609</td>
<td>8.49</td>
</tr>
<tr>
<td>State Bank of India</td>
<td>6.64</td>
<td>28127</td>
<td>5.47</td>
</tr>
<tr>
<td>State Bank of Bikaner and Jaipur</td>
<td>0.28</td>
<td>2600</td>
<td>0.25</td>
</tr>
<tr>
<td>State Bank of Hyderabad</td>
<td>0.11</td>
<td>2339</td>
<td>0.25</td>
</tr>
<tr>
<td>State Bank of Indore</td>
<td>0.10</td>
<td>1997</td>
<td>0.30</td>
</tr>
<tr>
<td>State Bank of Mysore</td>
<td>0.20</td>
<td>1274</td>
<td>1.02</td>
</tr>
<tr>
<td>State Bank of Patiala</td>
<td>0.17</td>
<td>3549</td>
<td>0.12</td>
</tr>
<tr>
<td>Bank Group / Bank</td>
<td>Manufacturing Enterprises</td>
<td>Service Enterprises</td>
<td>Advances to Khadi &amp; village industries sector</td>
</tr>
<tr>
<td>-------------------</td>
<td>---------------------------</td>
<td>---------------------</td>
<td>---------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>No. of Accounts</td>
<td>Amount Outstanding</td>
<td>No. of Accounts</td>
</tr>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td>State Bank of Travancore</td>
<td>2.70</td>
<td>1723</td>
<td>1.08</td>
</tr>
<tr>
<td><strong>B. Nationalised Banks</strong></td>
<td><strong>8.33</strong></td>
<td><strong>89292</strong></td>
<td><strong>15.08</strong></td>
</tr>
<tr>
<td>Allahabad Bank</td>
<td>0.80</td>
<td>3165</td>
<td>1.03</td>
</tr>
<tr>
<td>Andhra Bank</td>
<td>0.19</td>
<td>2980</td>
<td>0.67</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>0.47</td>
<td>8586</td>
<td>0.73</td>
</tr>
<tr>
<td>Bank of India</td>
<td>0.56</td>
<td>10927</td>
<td>1.60</td>
</tr>
<tr>
<td>Bank of Maharashtra</td>
<td>0.20</td>
<td>1649</td>
<td>0.35</td>
</tr>
<tr>
<td>Canara Bank</td>
<td>0.96</td>
<td>10068</td>
<td>2.05</td>
</tr>
<tr>
<td>Central Bank of India</td>
<td>0.63</td>
<td>3605</td>
<td>0.96</td>
</tr>
<tr>
<td>Corporation Bank</td>
<td>0.09</td>
<td>1950</td>
<td>0.26</td>
</tr>
<tr>
<td>Dena Bank</td>
<td>0.22</td>
<td>2022</td>
<td>0.24</td>
</tr>
<tr>
<td>IDBI Bank Ltd.</td>
<td>0.05</td>
<td>3159</td>
<td>0.21</td>
</tr>
<tr>
<td>Indian Bank</td>
<td>0.26</td>
<td>2474</td>
<td>0.56</td>
</tr>
<tr>
<td>Indian Overseas Bank</td>
<td>0.31</td>
<td>5033</td>
<td>0.65</td>
</tr>
<tr>
<td>Oriental Bank of commerce</td>
<td>0.25</td>
<td>4305</td>
<td>0.29</td>
</tr>
<tr>
<td>Punjab National Bank</td>
<td>0.85</td>
<td>10387</td>
<td>0.47</td>
</tr>
<tr>
<td>Punjab &amp; Sind Bank</td>
<td>0.10</td>
<td>1256</td>
<td>0.24</td>
</tr>
<tr>
<td>Syndicate Bank</td>
<td>0.34</td>
<td>3422</td>
<td>1.22</td>
</tr>
<tr>
<td>Union Bank of India</td>
<td>0.53</td>
<td>7319</td>
<td>1.36</td>
</tr>
<tr>
<td>United Bank of India</td>
<td>0.80</td>
<td>1761</td>
<td>0.83</td>
</tr>
<tr>
<td>UCO Bank</td>
<td>0.52</td>
<td>3304</td>
<td>0.59</td>
</tr>
<tr>
<td>Vijaya Bank</td>
<td>0.20</td>
<td>1921</td>
<td>0.77</td>
</tr>
<tr>
<td><strong>Public Sector Banks (A+B)</strong></td>
<td><strong>18.53</strong></td>
<td><strong>130901</strong></td>
<td><strong>23.57</strong></td>
</tr>
</tbody>
</table>

**Note:** Data are provisional.

**Source:** Half yearly return on advances to priority sectors, Rural Planning and Credit Department, RBI.
3.10 SERVICES OF PUBLIC SECTOR BANKS TO MSME ENTREPRENEURS

The following are the Public Sector Banks which are providing entrepreneurial services to MSMEs.

1) State Bank of India and its subsidiaries
2) Allahabad Bank
3) Oriental Bank of Commerce
4) Bank of Baroda
5) Bank of India
6) Indian Overseas Bank
7) Central Bank of India
8) Punjab National Bank
9) IDBI Bank
10) Indian Bank
11) Canara Bank and
12) Corporation Bank

1) State Bank of India (SBI) and its Subsidiaries

In order to accelerate the development of identifying backward areas by monitoring potential entrepreneurs to take up risky new ventures, the SBI launched Entrepreneurial Development Programmes (EDPs) in 1978 as per the bank’s ventures, the EDPs consist of one month intensive training in behavioural science, management aspects, field training. During the training period, the entire cost of boarding and lodging is met by the bank. The bank’s EDP consists of three phases as follows:

1. Initiation phase for creating awareness about entrepreneurial opportunities.
2. Development phase through training programmes in development motivation and managerial skills and
3. Support phase counselling, encouragement and infrastructural support for establishing and running an enterprise.
In 1967, the SBI launched a liberalized scheme for providing financial assistance to technically qualified or trained entrepreneurs to the extent of 100 per cent, if necessary. The target group is the technocrats who lack the financial capability to meet the normal margins stipulated by the bank. Under its equity fund scheme, the bank may grant interest-free loan for the 25 per cent of the project cost, which is the minimum contribution of an entrepreneur.

Recently, SBI has set up a research and development fund of Rs.5 cores for, inter alia, assisting entrepreneurial development. SBI and its group offer package of financial arrangement and assistance to small-scale units in their promotional and expansion activities and act as bankers to capital issues.

OTHER PUBLIC SECTOR BANKS

1) Allahabad Bank

Allahabad bank offers assistance for MSME entrepreneurs in preparing project feasibility reports, conducting overall industry studies, a detailed in-depth study of the existing system and procedures in various functional areas for idea problems and other deficiencies, to develop tailor-made solutions. The division also helps the management in implementing the suggestions.

2) Oriental Bank of Commerce

Oriental bank of commerce gives a big boost to Micro, Small and Medium Enterprises. It offers the following products and services for MSME customers.

I. Advances upto rupees five lakhs without collateral security;

II. Advances over rupees five lakhs and upto Rs.50 lakhs, based on good track record of accomplishment and financial position, and no collateral insisted upon.

Other Options

1. Amount of loan liberally sanctioned at 20 per cent of projected annual turnover basis

2. Comfortable margin options available

3. Composite loan limit has been raised to Rs.1 Crore
4. Simplified loan application forms for convenience of borrowers

5. Loan Applications complete in all respects duly received and acknowledged

6. Incentives under Technology Up gradation Fund (TUF) Scheme are available

7. Loans under margin money scheme of Khadi and Village Industries Centre (KVIC) for setting up viable village industries

8. Open Term Loan scheme for MSMEs

9. Oriental Business Card Scheme (OBCS) or Oriental Artisans Card Scheme (OACS) upto a limit of Rs. 10 lakhs and Rs. 2 Lakhs respectively.

10. Co-financing arrangement with SIDBI

11. Focused attention to MSME Units at our 17 Specialized SME Branches located in different parts of the country and

12. Speedy Processing within specified time norms.

3) **Bank of Baroda**

Bank of Baroda started its operation in the year 1908 in Baroda through its Corporate Centre which is in Mumbai now. Its mission is ‘to be a top ranking National Bank of International Standards committed to augment stake holders' value through concern, care and competence”. Bank of Baroda offers following MSME products and services:

1. Baroda Vidyasthal Loan
2. Baroda Arogyadham Loan
3. Baroda Laghu Udhyami Credit Card
4. Baroda Artisans Credit Card
5. Technology Upgradation scheme
6. SME short-term loans
7. SME medium term loans and
8. Composite Loans.
Bank of Baroda has started which is known as ‘entrepreneurial banking’ in collaboration with Uttar Pradesh small industries corporation to assist technician entrepreneurs to set up their own units at Rae Bareli industrial complex for building and hardware materials. Under this scheme, the corporation assists the technician with the acquisition of fixed assets, and Bank of Baroda arranges in plant training in established industrial units and provides working capital facilities to the entrepreneurs.

Bank of Baroda has also started a multi service agency at Mumbai to provide technical assistance to self-employed persons about feasibility of projects or proposals, guide the entrepreneurs in regard to availability of raw materials, marketing prospects, etc.

4) Bank of India

Entrepreneurial Clinic-Cum-Guidance Service

With a view to fostering growth of entrepreneurship and economic development, the bank has set up the cell. The scheme offers;

1. Assistance in selection of industry, preparation and evaluation of project report and market survey
2. Practical training in the line, if necessary
3. Assistance in obtaining government clearance, procurement of machinery and equipment and marketing products and
4. Assistance and guidance in implementation of the project.

The novel feature of the scheme is that bank will provide from a panel of industrialists a ‘foster father’ to guide and assist the budding entrepreneurs.

5) Central Bank of India

Central Bank of India has shown growth of MSME credit from Rs.9317 crore as on 31.03.2010 to Rs.12444 crore as on 31.03.2011 representing an increase of 33.56 per cent. The principal objective of this policy is to improve our portfolio of MSE credit to Rs.17000 crore by 31.03.2012 and Rs.26000 crore by 31.03.2016. In addition to the above, other objectives are as under:
1. Bank’s positive commitment to its MSE customers to provide easy, speedy and transparent access to banking services in their day-to-day operations and in times of financial difficulty

2. Positive thrust to MSME sector

3. Hassle free credit to MSMEs

4. Proper appraisal and evaluation of advances proposal.

5. Achievement of different parameters prescribed by Government of India / Reserve Bank of India.

6. Cluster Based approach for financing MSMEs.

7. Increased Coverage under credit guarantee scheme of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

8. Complete adherence to Banking Codes and Standard Board of India (BCSBI), Code of Bank’s commitment to MSMEs.

9. Generation of large number of youth entrepreneur.

10. The policy strives to ensure that the socio economic obligations cast on the bank are fully met.

11. The policy document ensures compliance of all the directives/guidelines issued by the Government, RBI and all other regulatory requirements on MSMEs.

12. With regard to guidelines issued from time to time by the authorities and

13. Bank would follow them in all their aspects. However, if these permit varying interpretations, the Bank will adopt a reasonable interpretation, as determined by the Credit Risk Management Committee without deviating from the spirit behind the guidelines.

6) Punjab National Bank

Through its merchant banking division it offers similar package of assistance to small-scale units.

The packages of measures include the following:
(i) The bank studies the economic viability and technical feasibility of the proposals and help in preparation of market survey report with the assistance of technical consultants.

(ii) They assist entrepreneurs in obtaining various government consents required for industrial projects right from the time the application for letter of intent is made.

(iii) They assist the entrepreneur in raising resources in the form of debenture, term loans, deferred payment guarantees from financial institutions.

(iv) They assist in raising foreign exchange resources required for import of plant and machinery, components, raw materials, etc. by arranging through the bank’s foreign correspondents, suppliers credit, buyers credit and foreign currency loans.

(v) They determine the capital structure, assist in obtaining consent of controller of capital issues, finalization of syndication of underwriting arrangements, handling of share applications and relative allotments in consultation with stock exchange etc. finance export of capital equipment on deferred payment terms.

(vi) Suggesting for strengthening the capital base of small scale industries, which intend to expand and diversify by conversion of partnership firms into private limited company, or conversion of private limited company into public limited company.

7) IDBI Bank

IDBI Bank has been actively engaged in providing a major thrust to financing of MSMEs. With a view to improving the credit delivery mechanism and shorten the Turn Around Time (TAT), IDBI Bank has developed a special business model to serve the SMEs in India. The Bank has set up 24 City MSME Centres across India in Mumbai, Delhi, Kolkata, Chennai, Bangalore, Hyderabad, and Pune. These Centres are the Bank's hubs while dedicated MSME desks have been set up in several branches across these cities. These branches serve as front offices for sales delivery and customer service. The Bank has a wide variety of products and services catering to the needs of different segments within small business. Long years of experience in being the trusted partner of large and mid-corporates has translated into deeper understanding of needs of business and industries. The Bank has compartmentalised products for transporters, dealers, traders, and vendors. In addition, it has a separate
Transaction Banking Group that has expertise in products like cash management services, letter of credit, bank guarantees and treasury products. IDBI Bank provides following MSME Services:

(i) Sulabh Vyapar Loan

(ii) Dealer Finance

(iii) Funding Under CGFMSE Direct Credit Scheme-SIDBI Preferred Customer Scheme Vendor Financing

(iv) Lending against the security of future Credit Card Receivables

(v) Working Capital Financing Finance to Medical Practitioners Loans and

(vi) SME Hosiery Special Current Account

8) Indian Bank

Entrepreneurship Service Cell

The bank provides consultancy services to persons who graduate from colleges and institutions of engineering technology, and unemployed engineers, diploma holders and other graduates or business executives. The consultancy service right from identification of a project to its implementation and marketing is provided through the personnel of the bank and panels of expert specialists. For this purpose, the cell after preliminary discussion with a prospective entrepreneur arranges a meeting with the right panel member. The cell and the panel member then assist the entrepreneur. This service was inaugurated on 3rd October, 1973 and is available at Chennai and a few other selected Centres.

9) Canara Bank

INDUSTRIAL INFORMATION AND GUIDANCE SERVICE

The bank has set up an industrial information and guidance service to provide information and advice to its clients on matters such as, scope for establishments of industries, technical and marketing facilities, taxation, export and imports, accounting and management and to prepare project reports on proposed industries.
10) INDIAN OVERSEAS BANK - BANK’S SMALL BUSINESS AID AGENCY

The agency specializes in the field of small business and offers necessary guidance to those persons who wish to start the same. It also offers consultancy to professionals, like doctors, engineers, lawyers, etc., to enable them to start their practice. The operations of this agency are presently limited to Chennai city and Madurai, though the bank plans to establish similar agencies in other centres’ in due course.

11) CORPORATION BANK

Small-scale industries department of the bank with a technical cell of engineers working at different industrial growth canters, besides appraising the viability of credit proposals from small scale industries sector, offers counselling services to the entrepreneurs, including helping them to prepare project reports.

3.11 CONCLUSION

This chapter has exposed the scope of MSMEs and the role of Public Sector Banks with host of factors.

MSME act which was introduced in the year 2006 gave categorised and classified the industries according to the processing. As a result, investment and loan availability to the MSMEs are clearly identified. The major blockades of MSMEs are discussed such as financial inadequacy and so on. The products that are offered by the Public Sector Banks are outlined.

The next chapter deals with the Socio-economic profile of the entrepreneurs.
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