



A Study On Finance And Credit Flow To Rural Msmes In Indian Economy

* Chikkannaswamy G.B Research Scholar, Dept. of Economics, Bangalore University Bangalore –
560056, Karnataka, India.

** Dr.T.Rajendra Prasad, Professor, Dept. of Economics, Bangalore University Bangalore – 560056
Karnataka, India.

1.1 INTERODUCTION

Micro Small and Medium Enterprises (MSMEs) are an important part of the Indian economy it is one of the most powerful drivers of economic development, innovation and employment. Access to finance is it is often seen as a significant barrier to MSME growth. Creating opportunities for MSMEs in emerging markets. Markets are an important way to promote economic development and reduce poverty.

In India, MSMEs account for almost 8% of the country's GDP and about 45% of manufacturing. Its production accounts for about 40% of the country's exports and also provides employment for 11.40 million people (As per NSS 73rd round conducted during the period 2015-16). From now on, it will be called the backbone of the country. Government of India has submitted MSMES or MSMEs contracting with MSMES Medium-sized Enterprise Development Act of 2006 (MSSMED). These efforts essentially Persons engaged in manufacturing, assembling, handling, and protecting products and merchandise. MSME It is an important sector of the Indian economy and has contributed significantly to the economic growth of the country and Economic turnaround. This will create both open business doors and jobs that connect people at the waist. Contribute to the improvement of backward and rural areas of the country. As stated in the annual report According to a government report (2018-19), there are approximately 60,841,245 MSMEs in India. Given that banks are the major source of funds for India and the Reserve Bank of India includes micro, small and medium enterprises in its list of priority credit sectors. Banks were also advised Achieve 20% annual growth and 10% annual growth in lending to micro businesses. Number of micro business accounts. The Indian government issues new guidelines from time to time. It is time to support this sector and especially smooth the flow of credit to this sector.

The role of MSMEs in socio-economic development is widely recognized. Despite this, although this sector contributes significantly to the Indian economy, it faces many obstacles. The main obstacles are finance is access to timely and appropriate credit at a reasonable cost is essential for the growth of MSMEs. Financial institutions are limiting their exposure to this sector due to low lending levels. We have limited costs to service our segments and limited ability to provide real estate collateral. CGTMSE plays an important role since its inception in 2000 it has played a role in providing credit guarantee to small and medium enterprises in India. I still feel indebted to many people. The sector is under-supplied in a timely and sufficient manner due to a shortage of both bankers and entrepreneurs. In this article, we will introduce how to obtain a system loan using a loan.

Anyone who wants to start a business or already owns a business that works with Micro. Small and medium enterprises (MSMEs) benefit from the benefits of credit bureaus. According to the recent July 2020 statement on rethinking MSMEs, the following table shows: will be displayed and the freshest meaning of MSME will be reclassified:

Table: 1 Definition of Micro, Small and Medium enterprises.

Classification	Investment in Plant and Machinery	Annual Turnover
Micro	Less than Rs 1 Core	Less Than Rs.5 Core
Small	Less than Rs 10 Core	Less than Rs 50 Core
Medium	Less than Rs 50 Core	Less than Rs 250 Core

Source: MSME Annual Report 2022-23

1.2 REVIEW OF LITERATURE

Shashikala S.R, (2020). This paper provides an overview. India's public sector plans to support new-age business visionaries. Currently Indian attitude, open door of working in open area and vast scope is narrow and huge Globalization opens valuable doors for exploited entrepreneurs it really takes more time to turn you into a very financial force.

A.Sathish, (2019) this paper outlines strategies offered by MSMEs to promote entrepreneurship. India. We need to work with MSMEs to provide support for progress. Entrepreneur in his MSME sector covering Khadi village and coconut industry. This support also facilitates skills development programs and provides a grant program.

According to RBI Expert committee on MSMEs (2019) it is essential that this important legislation focuses more heavily on market facilitation. Promote ease of doing business for MSMEs. SIDBI, as a nodal authority, ideally an intermediary that creates a platform where various venture capital funds can participate, is resulting in a multiplier Implications for provision of equity support to MSMEs. Support provided by government-backed funds of funds (FoF) VC/PE firms investing in MSME sector should be established to encourage investment in MSME sector. The committee recommends setting up a non-performing assets fund of Rs 5,000 crore. It is structured to support units within a cluster that experience changes in the external environment. B. banning plastics, or As a result of 'dumping', many MSMEs

became NPAs. Loan guarantees are an important risk a risk mitigation tool that provides lenders with a buffer for lending to small and medium-sized businesses. Currently CGTMSE and NCGTC We have developed a credit guarantee system for small and medium-sized business loans. However, these units are currently out of scope of regulation. Therefore, it is recommended that all credit guarantee schemes be subject to this. RBI Regulation and Supervision. RBI can be relied upon to decide on regulatory and supervisory guidelines. Recognized principles for the design, implementation and evaluation of public credit guarantee systems Developed by the World Bank Group for small and medium-sized enterprises.

Zanjurne, (2018) this document covers MSME implementation, development and opening doors. Fact For this reason, the region is considered to be a major contributor to business, trade, and output. The MSME sector can contribute to achieving the goal of national production. The goal is to contribute 25% to India's GDP by 2020. Therefore, its authority is India is taking important steps towards 'Make in India'.

1.3 OBJECTIVES OF THE STUDY

- To analyse the sources of finance and credit flow to rural MSMEs in Indian Economy
- To study the Role of Credit Guarantee Trust Fund for Micro and Small Enterprises(CGTMSE)
- To study the Problem of finance of rural MSMEs
- Suggestion

1.4 METHODOLOGY

This study looks into the CGTMSME in India study is primarily based on secondary data. The relevant data is collected from some sources like some industry journals, the annual report of MSME, the official website of MSME, publications of CGTMSE, Handbook of Statistics on Indian Economy, RBI report, CGTMSE report and online articles have been used for analysis.

1.5 SOURCE OF FINANCE AND CREDIT FLOW TO RURAL MSME IN INDIA ECONOMY

Finance is the lifeblood of business. MSME Temporary loan or working capital loan required mainly in the initial and growth stages. (Kumar and Sharma, 2016). There are two types of funding sources for MSMEs in India.

- Non-institutional lending to MSMEs in India (Which includes loans from local moneylenders, friends, and relatives who charge high interest rates)
- Institutional lending to MSMEs in India:
 - a) commercial loans, is regulated by the Reserve Bank of India
 - b) public sector banks, private sector banks including small banks, foreign banks, cooperatives
 - c) Non-banking financial companies including banks and local rural banks
 - d) NBFCs-MFIs

To achieve this objective, Securities and Exchange Board of India (SEBI) financing arrangements for MSMEs such as SME exchanges, angel investors, venture capital, private equity, etc. Apex bodies such as SIDBI and MUDRA provide sectoral support; central government. MSMEs may rely on both sources as per their needs.

Despite increased lending to MSMEs in recent years, addressable credit gaps still exist in the MSME sector Estimated at 25.8 trillion rupees (US\$397 billion)⁷ legitimate financial institutions can make loans at a profit in short term.

Table: 1 Credit Flow to MSME by the Banks

Year ended	Public Sector Banks	Private Sector Banks	Foreign Banks	Scheduled Commercial Banks
March 2014	7583.78	2471.22	344.30	10399.30
March 2015	8526.89 (12.44%)	2815.48. (13.93%)	367.87 (6.85%)	11710.26 (12.61%)
March 2016	8205.48 (-3.77%)	3590.85 (27.54%)	363.73 (-1.13%)	12160.07 (3.84%)
March 2017	8289.33 (1.02%)	4309.62 (20.02%)	365.02 (0.35%)	12963.98 (6.61%)
March 2018	8645.98 (4.30%)	4107.60 (-4.69%)	488.81 (33.91%)	13242.39 (2.15%)
March 2019	9367.24 (8.34%)	5717.04 (39.18%)	691.37 (41.44%)	15775.66 (19.13%)
March 2020	9281.19 (2.47%)	6691.61 (12.57%)	776.49 (12.36%)	16749.28 (6.73%)
March 2021	9916.86 (6.84%)	8342.80 (24.67%)	852.00 (9.73%)	19111.67 (14.1%)

Source: RBI annual report 2022

Table 1 shows the largest loan in 2019 completed on schedule Commercial Bank, d. H. 18.4%, 2020 only 6.73% of loans were funded on time much smaller commercial banks Last fiscal year. Commercials scheduled for Banks provide 14.1% of credit flows to MSMEs Sector from March 2020 to March 2021. Private Industrial banks play an important role in financing Small and medium-sized micro enterprises. Although, many small and medium-sized enterprises do not receive financing. From the bank due to lack of collateral Security, transaction costs and lengthy procedures therefore, the Indian government started a new policy. System for small and medium-sized enterprises to receive non-guaranteed loans from the bank.

1.6 ROLE OF CREDIT GUARANTEE TRUST FUND FOR MICRO AND SMALL ENTERPRISES (CGTMSE)

Government of India issued loan Guarantee fund system that provides collateral Safe funds for small and medium-sized businesses Eligible and Covered Businesses That's the plan. There are both new and existing companies are eligible for funding under this scheme. Loan guarantee the funds are jointly managed by the Micro Ministry. Small and Medium Enterprises and Small Businesses Industrial Development Bank of India to Castle To meet the credit needs of the SME sector Availability of financing to disadvantaged, unserved, and underserved sectors. The plan is Officially released in August 2000, Started operations in

January 2000 In recent years, the Credit Guarantee Fund has Warranty coverage for collectors or third parties Guarantee fee credit limit for member loans From institutions to small business

CGTMSE was jointly established in August 2000 by the Ministry of MSME and SIDBI to facilitate access. Provide funding and financial assistance to unserved/underserved borrower populations Lender for first generation entrepreneurs and disadvantaged sections of society who lack collateral and/or third party guarantees to support their ventures. Over the past 18 years of operation, CGTMSE has cumulatively; it has approved over 34 million guarantees¹¹ for loans totalling over 1.75 billion rupees. Free collateral/third party guaranteed credit facility (both fund-based and non-fund-based) extended from certification bodies for new and existing micro and small enterprises, including service companies. If the loan limit is 2 million rupees (2 million rupees only) then it is eligible for repayment. Guarantees were recently approved for some NBFCs and small finance banks.

Table: 2 Credit Guarantee for Micro Small and Medium Enterprises

Category (including Trading activity)	Maximum extent of Guarantee Coverage		
	Upto ₹ 5 lakh	Above ₹ 5 lakh & upto ₹ 50 lakh	bove ₹ 50 lakh & upto ₹ 500 lakh
Micro Enterprises	85%		75%
MSMEs located in North East Region (incl. Sikkim, UT of Jammu & Kashmir and UT of Ladakh)		80%	
Women entrepreneurs / SC/ST entrepreneurs / MSEs situated in A operational District / ZED certified MSEs / Person with Disability (PwD) / MSE promoted by A gniveers		85%	
All other category of borrowers			75%

Source: CGTMSE Annual report 2023

Present in both CGFMSE and new micro also applicable to small and medium-sized enterprises the maximum guarantee amount is 2 million yen. Guaranteed amount is up to 50%, 75%, 80%, 85% will be approved as a line of credit. Guarantee covers up to 85% of the total loan amount for small businesses. Range of up to 50% guaranteed from 500,000 yen to 1 million yen 100,000 are covered by MSE Retail. Trust Resolve claims up to 75% of default amount a credit facility granted by a credit institution Up to 2 million. The credit guarantee fund is an always-on tool for accessing formal information Loans for small and medium-sized enterprises.

Warranty coverage is 80% (I) for micro and small businesses operated and/or owned by Women, (II) All loans/loans against credit facility up to Rs.5 million in North East Region (NER) In Case of In the event of a default, the Trust will pay the claim up to 75% of the defaulted amount of the credit facility provided by the loan. Institution for credit facility up to 2 million rupees. Credit guarantee systems have evolved over the years as an excellent tool to facilitate access for small and medium-sized businesses. Official credit

information source. This program aims to shift the perspective of lenders from secured loans to loans. Project responsibility. CGTMSE was able to give her MLI confidence and encourage her to increase her credit flow. MSE stands for the convenience of warranty coverage. Considering the fact that the program focuses exclusively on The SME sector, the backbone of the Indian economy, brings positive externalities. GDP and job creation are huge. CGTMSE has always acted quickly and proactively to protect this. Sustainable growth in trust and addressing the needs of the MSME sector.

However, when we analyze the guarantee fees charged under this system, we find the following: The table shows that guarantee fees are high for prospective and even existing SMEs.

Table: 3 Annual Guarantee fee charged by CGTMSE

Credit Facility	Annual Guarantee Fee (AGF) [% p.a.]*	
	Women, Micro Enterprises and Units covered in NER	Others
Up to Rs.5 Lakhs	1.00+ RP	
Above Rs.5 Lakhs and up to Rs.50 Lakhs	1.35+RP 1	1.35+RP
Above Rs.50 Lakhs and up to Rs.200 Lakhs	1.80+ RP	
Retail Trade (Rs.10 lakh to Rs. 100 lakh)	2.00+ RP	

Source: CGTMSE Annual report 2023

RP- Risk Premium as per extant guidelines of the Trust

***AGF will be charged on the guaranteed amount for the first year and on the outstanding amount for the remaining tenure of the credit facility.**

Indian SMEs are reluctant to pay high surcharges on top of already high interest rates The financial institution will collect it. Also, small businesses cannot make donations from project sponsors. A deposit will prevent your loan from being approved.

1.7 PROBLEM OF FINANCE OF RURAL MSMEs

From any source except timely loans from non-institutional sources of exorbitant amounts Due to high interest rates, bank branches are mushrooming across the country, making bank loans more popular. But in spite of numerous policy initiatives and regulations have placed many restrictions on lending to MSMEs, including the Indian banking system. This remains low compared to the growth in demand for bonds in this sector.

From a bank's perspective, MSMEs are high-risk borrowers due to insufficient assets and limited financial resources. Capital this sector is highly susceptible to market and economic fluctuations. There is also fear

of illness unit in this field. As per interim RBI data for September 2016, there are 480,280 cases of disease micro diseases and infections. MSMEs with a loan balance of 326.74 billion rupees.

Micro Small and Medium-sized enterprises (MSMEs) tend to be less transparent than large enterprises because they are less exposed to the public information. As a result, there is a good chance that banks will have difficulty evaluating the creditworthiness of MSMEs. These may deter lending and lenders may replace the lack of information with higher collateral requirements. MSMEs in India are also unable to access timely and sufficient funding due to lack of collateral.

1.8 SUGGESTIONS

- Micro small and Medium Enterprises (MSMEs) must also be included as a beneficiary of CGTMSE. This will resolve the issue. Units are ineligible for upgrading from Small to Medium for the following reasons: Investment in factories and machinery and equipment.
- The annual guaranteed premium rate under CGTMSE should be lower than the existing interest rate. MSMEs.
- The level of coverage should be uniform and increased for all categories of MSMEs Up to 90% of the project is offered, as entrepreneurs can contribute at a lower rate of profit.
- There is a need for incentives, incentives, awards or reward programs for credit sanctioning personnel. All banks and regions would be wise to increase lending to the MSME sector.
- Government should take comprehensive precautionary measures to protect all potential and existing bankers Entrepreneurs will be provided with information about credit procedures and all government funding programs. Please pay attention to them It is worth highlighting that this sector contributes significantly to the Indian economy. Entrepreneurship and this should be included in the high school curriculum. Generations choose entrepreneurship as a career and choose knowledge and processes to earn credit Banks will make sure you have all the information you need to get a timely credit score.
- Arrangements should be made for MSME borrowers to apply for loan guarantees directly from CGTMSE. Based on the eligibility certificate issued by CGTMSE, you need to approach MLI and get the loan at a specific time. Competitive rates.
- There is a need for a single point of contact system for MSMEs so that they can avail all the benefits at one place.

1.9 CONCLUSION

This study analyzed the role of capital gains tax (CGT) and the flow of credit from regular commercial banks to the MSME sector. Banks play an important role in addressing the challenges faced by MSMEs in India. Although the SCB contributes significantly to the financing of MSMEs, there is a financing gap between the demand and supply of credit flows. MSMEs can avail the CGT system as CGTMSE provides loans to his MSMEs without any collateral or guarantees. Financial institutions feel secure when they

receive loans based on this system. This is the main reason why CGTMSE is popular among corporate and bankers.

Despite numerous policies and programs by governments and central banks, people are finding it difficult to gain access to this sector. Timely and appropriate financing. This problem still exists on both the corporate and banking side. In the era of Digital India and Atmanirbhar Bharat, India is home to many small but innovative start-ups in the services sector. An industry that needs support in the form of venture capital and timely financing. Small and medium-sized enterprises are also forming partnerships. Large companies and the introduction of competitive products into the market. Emerging MSMEs may have a higher failure rate, but despite the risks, loans to these businesses are not guaranteed. It is imperative that businesses ensure inclusive growth, and credit guarantee schemes can play an important role here. Loan guarantee is not the only criterion for granting MSME loans, but the fact that it is lacking cannot be denied. Collateral is the main reason why banks reject good projects.

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