

Non-Banking Financial Companies contribution to credit support for MSME: A literature study

Mr. Gaurav Kumar ¹

PhD. Research Scholar, Department of Business Management
KLEF Business School, Koneru Lakshmaiah Educational Foundation KL University,
Vaddeswarm, Vijayawada, Guntur, Andhra Pradesh, India

Dr. K.Hema Divya²

²Associate Professor and HOD, KLEF Business School, Koneru Lakshmaiah
Educational Foundation KL University, Vaddeswarm, Vijayawada, Guntur, Andhra
Pradesh

Email: klgaurav4@gmail.com¹ hema@kluniversity.in²

Abstract

Although much research work has investigated the impact of credit by public sector bank on MSME and how they mutually impact on economy. The purpose of my study is to generate and investigate for positive impact to fill the gap of credit obstacle face by the MSME from the public sector bank so the MSME sector will get quick credit from a financial bodies without taking long time for this economy need a vast support to small industry by NBFCs in the way to credit to the MSME sector moreover for creating awareness about new innovation, market, to become internationally competent Indian economy's each state should have a state university. Through the literature study, the outcomes show that the MSME sector misses many lucrative opportunities due to a lack of adequate cash whereas study suggest sentientious credit way through NBFCs to support MSMEs in significant and result orientated.

Keyword: Credit, Non- Banking Financial Institutions, MSMEs

Introduction

MSMEs account for almost a third of the GDP, a fifth of total employment creation and generation. NBFCs provide credit primarily to those segments where they can compete with banks. India is a developing country where almost 65 percent populations live in rural area and very less organized financial system for the MSME sector. MSME and NBFCs have a strong presence all over the world economy comparatively very low in India. Many other nations who become develop in which MSME and NBFC have higher contribution in the developed economy. MSME sector is the second largest employer after agriculture it gives 60 percent in employment generation & they completely give to transformation and innovation, support local and regional development and to improve social cohesion. Earlier 50 years backs these entrepreneurs are go for credit to the government sectors banks due to lack of awareness so that economy was also not grown as comparison to European countries and American nations by now India become a

developing Countries. European Union, the overall MSME contribution to the economy is almost 56 percent in the GDP. In these countries MSMEs have the leading role in employment, innovation, GDP etc. and same role the sectors play in India if the sector get on demand finance the contribution for sectors in different business segment become higher. Ministry of MSME sets the target to increase the sector's contribution to GDP to 50 percent from 29 percent now and employment 150 million by 2025(Ardic et al., 2012). MSME required credit for modernization, expansion, & diversification of business and for maintaining day to current and working expenditure. Furthermore presence of public sector banks and other private banks are not very much useful because of high collateral rate, high interest rate, unable to pay on demand loan, complex, lengthy and intricate process in applying for bank loans make negative impression on the demand for credit so here, a stream need of a financial body which can fund to MSME on very flexible way or term and conditions. Through this study explains that despite of obvious importance of MSMEs in the Indian economy, government departments, SIDBI and the RBI have not been able to reach out to the large number of MSMEs. As per RBI Primary surve, marked that almost 44 per cent of MSME sector involved in manufacturing activities facing delay in credit or payment. It was estimated that only about 10 per cent of unregistered and 10 percent of registered MSMEs have access to finance from banks. Our study shows the importance to MSME and NBFCs in the economic development of India. (*RBI BULLETIN January 2019 VOLUME LXXIII NUMBER 1, 2019*)

Below table-1 define the definition of MSMEs in the table as per MSME Development act.

Table-1

	2006 Act		2015 Bill		2018 Bill	Cabinet (June 2020)
Criteria	Investment		Investment		Turnover	Investment and Turnover
Type	Manufacturing	Services	Manufacturing	Services	Both	Both
Micro	Up to Rs 25 lakh	Up to Rs 10 lakh	Up to Rs 50 lakh	Up to Rs 20 lakh	Up to Rs 5 crore	Investment: Upto Rs 1 crore Turnover: Upto Rs 5 crore
Small	Rs 25 lakh to Rs 5 crore	Rs 10 lakh to Rs 2 crore	Rs 50 lakh to Rs 10 crore	Rs 20 lakh to Rs 5 crore	Rs 5 crore to Rs 75 crore	Investment: Rs 1 crore to Rs 10 crore Turnover: Rs 5 crore to Rs 50 crore
Medium	Rs 5 crore to Rs 10 crore	Rs 2 crore to Rs 5 crore	Rs 10 crore to Rs 30 crore	Rs 5 crore to Rs 15 crore	Rs 75 crore to Rs 250 crore	Investment: Rs 10 crore to Rs 50 crore Turnover: Rs 50 crore to Rs 250 crore

Sources: MSME Development 2006 Act, MSME Development Amendment Bills 2015 and 2018, PIB update on cabinet approval; PRS.

Review of Literature

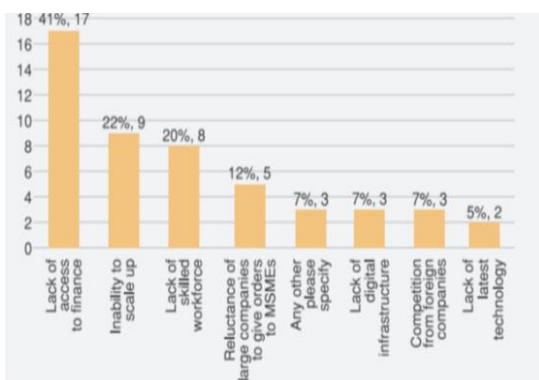
OECD conference on SMEs According to reported many obstructions to their growth and survival with long time vision including limited access to funding(OECD, 2006). Availability of financing from financial bodies has been identified in many entrepreneurs study as major and of the most noticeable impedes to the survival and growth of SMEs including innovative ones. (De Moor et al., 2016). Moreover, limited market power, the lack of management skills, high share of intangible assets, the absence of adequate accounting track records and insufficient assets, all tend to increase the risk profile of SMEs. Consequently, traditional commercial banks and investors have been reluctant to provide financing services to SMEs. As per 2019 data, out of 6.3 crore MSMEs in India,

only 8% were able to get credit assistance and loans from formal credit channels , and the rest 92% are either self-funded or dependent on NBFCs for getting financial help. In ways of funding, most of the bank asks it fund to MSMEs. One would think that MSMEs are the most “overbanked” sector, but they are actually the most under served. The MSMEs rarely get the credit they need for their growth from banks. So MSMEs are largely served by the NBFCs the financial inclusion could be backed by financial literacy to get best result. In the study we know that in India ample of financial literacy programs is running despite this capital investment by banks on large scale not met so NBFCs are growing these days on high rate and playing big role in the economic development of India so we need NBFCs to cater the development. Aerger & Udell Bass and Schrooten, (2005) state that MSME which have high credit rating they will get loan very easily since a firm who have low saga of credit may tough to get formal credit. Entrepreneur owner and firm are not separate to each other owner personal credit history also important to getting the loan but for the development of economy credit should be provide on very less terms and conditions because credit access is good sign of economic development such NBFCs are very helpful in this regard. Banking sector are affecting the financial sectors in respect of financing MSME but now the NBFC are playing vital role in financing to MSME. Banks alone not able to fulfill the credit need to all people, industry, MSME due to tough loan disbursement policy & low credit worthiness. So, the study focuses on need of NBFC for providing various financial services to all segment of industry to MSME easily & more quickly for development of MSME sectors in our country. by providing credit facility to MSE units which show positive movement of economic development. (Palai□□, n.d.). Explain that non-banking financial companies are an important tool to promote business development & economic development. In Bangladesh more than 15 million families are benefited from SME loan & other financial products such as micro saving & micro insurance. Shortage of passable & financial access in a timely manner continuous to remain the vast defiance for the MSME sector & has impelling its growth. The monetary requirement of this priority sector depends on the size of business operation, industry, customer’s segment and stage of development (Pande, 2008).

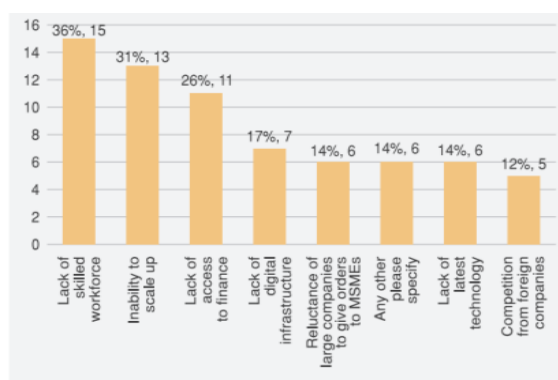
The greatest advantage of this business segment is the creation of jobs for the growth of t he economy through raising people's standards of life and standard of living is the indicator of economic development by NBFC funding it become more helpful in the economic development. (Sengupta et al., 2022) The study highlights NBFCs are increasing in numbers, credit growths and few times NBFCs were converted in small banks helpful in currency movement in the economy. (JAIN, n.d.) Through innovation and wealth generation, MSMEs are viewed as a catalyst for economi c development, and transformation. The government's involvement in key areas has been credited with the improvement of SMEs. The government's involvement in key areas has been credited with the improvement of SMEs. Large parts of the country's economy are dominated by SMEs, like, 10% are active in the manufacturing sector, 33% in commerce, 49% in service, and 8% in other fields(Eton et al., 2021) and all these are contributing to about 90% in employment which is close to 2.5 million people of the entire private sector employment and 80% of manufactured products accounting for 20%

of GDP still financial bodies like bank did not prefer to credit and NBFCs are coming forward with lenient way. Observes in the study, many factors hamper the economic development due to inadequacies in the existing credit delivery mechanism of banks, lack of technical known how the gap between formulation and implementation of government scheme for economic growth. MSME contribute to 45 percent of the exports, and there are expectations that their performance would be crucial in helping economy achieving a high growth trajectory. (Manickaraj, 2010) The focused of study on the contribution of MSME to the Indian economy in term of economic growth, employment generation, fostering fair and enhancing potential industrial base despite all we see high financing gap for that one financial bodies required from exiting one and need to promote a non banking companies which fill the gap of finance. Study focus on MSME with all segment of business development like service sectors, agriculture, manufacturing to high contribution to the GDP and need address financial needs through NBFCs for MSMEs to meet economic development. MSMEs have an impact on a variety of economic issues, including industrial progress, entrepreneurship, job creation, economic empowerment, and so on. All these may be causes of balanced growth. (De & Mondal, n.d.).) the study outlined about the MSME is the major area where entrepreneurs can take it as entrepreneurship opportunities seeing as it has low capital need and more job creations compare to large enterprises and is also regarded as the nursery for the entrepreneurship so here if MSME entrepreneurship will gain high scale than the economy get boost create higher job and urbanization. Moreover MSE help fulfill in solving unemployment and here is positive outlook between economic growth, MSME and unemployment. SME is the complimentary to large industry as ancillary with operating in the economy and contribute much in the development of the country which plays a vital role in the whole MSMEs eco-system of the secondary and tertiary sector.(Krishna, 2009). Summaries in speech at ASSOCHAM, MSME absorb the agricultural laborers they helps to cut the problem of disguised unemployment in rural area despite the high importance of MSME in the economy it continues to face lot of funding issue so there need of configurationally reforms in funding of MSME sectors (Shaktikanta Das, n.d.). The study concluded that NBFCs are slumping in credit and asset quality in recent years, but it is better than that of banks. NBFCs also reported better profitability and capital position. (Dr.J.Shanmuganandavadeivel & 1Dean, Nadu, 2018). SMEs have several challenging requirements to meet through credit but due to lack of strong legal or regulatory bases they are facing obstacle in credit.(Beck & Demirguc-Kunt, 2006). The study justify that NBFCs are slumping in credit and asset quality in recent years, but it is better than that of banks. NBFCs also reported better profitability and capital position (Pattanakar, 2016). SMEs have several challenging requirements to meet through credit but due to lack of strong legal or regulatory bases they are facing obstacle in credit. Sriyono ,SarwendahBiduri, BayuProyogi (2011). paper portrayed that Non-Banking Financial Companies (NBFCs) arise as important and essential patron in the country economic growth by having access to certain deposit segments and catering to the specialized credit requirements of MSME. While NBFCs are enduring highly useful services, several adverse, unhealthy features of their working had also been observed for MSME sector. Saeid (2010) in his study he concluded that

NBFCs have a big role in meeting the financial requirements of the MSME industries and development of Indian economy by some means. RBI Primary survey (Dec 2019) marked that almost 44 per cent of MSME sector involved in manufacturing activities facing delay in credit or payment. The competitive advantage of NBFCs is their vast understanding of how to expand financial inclusion in India for MSMEs with a large cover, including less transaction expenditure, quick decision making, customer familiarization, and prompt provision of services with access to remote and village branches, which distinguishes NBFCs from banks. Now, NBFCs are gaining prominence as last mile solutions, which have equipped them with speed, innovation, and a cutting-edge image in providing the legal path to financial empowerment and inclusion to under banked and financially unserved segments of the MSME sector.(Financial, 2020).



Graph- 1



Graph- 2

Business challenge faces by MSMEs in the services sector and manufacturing sectors. The graph above shows that MSMEs operating in the services and manufacturing sectors also face a lack of access to finance, as well as other issues such as a scarcity of skilled labor, a lack of infrastructure, and so on. However, the major issue is the financial problem that impedes MSMEs' development credit. As a result, in recent years, particularly during the pandemic, financial bodies have stepped forward as NBFCs, and the government should focus on emphasizing these institutions to cover large numbers of MSMEs.

Identification of Research Gaps

This area summarizes the role of NBFC in funding MSME which leads to economic development. Literature Review has identified that dearth of main route of formal finance is one constraint for MSME sector. 70% of Indian MSMEs agony with fund deficiency (IFC, 2018). The credit constraint gap create obstacle for entrepreneurs to catch the competitive opportunity to expand inventory, invest in machinery or up gradation. Whereas, MSMEs entrepreneurs concordantly speaking about the contrary conditions, onerous ways, paperwork, documentation and delays to source credit, bankers complain about bribe that many business owners are just not ‘finance ready’. This stalemate persists, and despite a significant push from the government, MSME lending remains below 20% of a typical bank’s portfolio. A whopping 65% of entrepreneurs lean on family and friends for credit or grants through Covid-19, with

many dipping into personal savings of up to a lakh to make sure MSMEs survival. India has immense MSME entrepreneurial potential that continues to stay under leveraged. While finance is one element to build a dynamic biosphere of MSME entrepreneurship, the Covid-19 crisis has brought in unprecedented urgency to reach and support to MSMEs and create a comprehensive, integrated policy to promote skill development and liquidity but still MSME sector depend upon the government subsidies, package and different relief albeit sector need a body like government NBFC who consider credit demand without collateral, low-interest rate, lenient documentation process, and on demand credit. So as to achieve MSMEs aim, the government should invest in providing more back-end services to improve performance of the MSME sector as it supplies goods and services to big industrial enterprises. Lack of technology-based production activities and low investment in R&D activities are bottlenecks hindering the sector to become competent. Universally, obtainable technology quite possibly endow by the government authority so that the output caliber of MSME giant can be embellish the present resources. In this, involvement of academic institutions in the form of providing research and development (R&D) services for product innovation. For all the target MSMEs required credit and by banks and different financial who are working as creditor for MSME in the economy is not quite enough to meet the quick and timely funding need here strong need of a finding institution who eager to fund MSME sectors if MSME take one step than the funding agency show the eagerness to fund. There are various studies have been found on NBFC, bank, GDP, Employment and its impact on economic development but there is no any study found on till now, on contribution of NBFC to credit MSMEs and mutually how contribute to the economic development. Public sector banks, private sectors bank are funding to MSME but here study try to find how MSME sector get credit without take long time to grab new business opportunities. In this how NBFC and MSMEs companies become highly helpful to promote economic development. In our country thousands of MSME and big numbers of NBFCs who funded by end number of private sector banks, PSB, and NBFCs. Government has taken broad steps and set up banks to finance MSME such as SIDBI, IDBI etc. but now time came set to a government NBFCs who work only for MSME sector as financier, backend technology incubator, research and development, technology based production by which MSME become internationally competent.

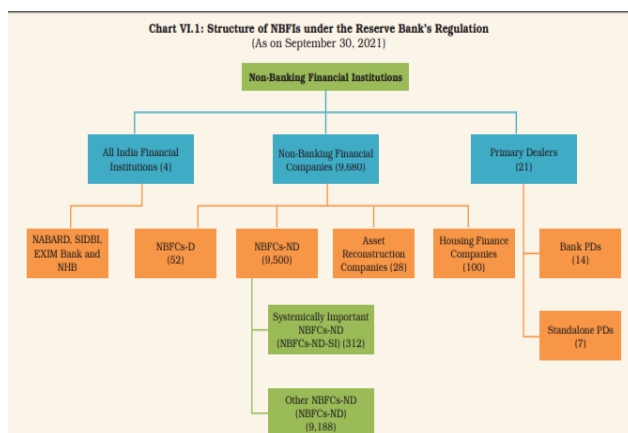
Initiatives MSMEs credit and Overall Operations

Initiative taken to credit by NBFCs to MSMEs has been reconstitution way to remove credit gaps among the entrepreneurs ecosystem. NBFCs would expand funding potential to small credit lenders. In addition, direct finance to MSMEs is being targeted at niche areas to address various financial gaps through specially designed products like risk capital, sustainable finance, factoring, invoice discounting, services sector financing, etc. NBFCs emerging as educator and clearly mentioning the specify their requirement for assessing a loan proposal like document and special information desire from entrepreneurs, what essentially they cover while assessing a loan proposal and what are the term on which NBFCs will agree to grant loan. NBFCs are high business oriented to

credit among MSMEs because credit enhancement also enhance the business growth of NBFCs so they establish separate administrative section to support MSMEs as consultant to make know on information and data so their growth, performance and life cycle can be analyzed and thus expediting credit sanctioning process with hasselment.

Innovation/Path breaking aspect of the research

India is a diverse country, each state has unique features like Rajasthani razai, Punjabi jutti, Kolhapuri chappal, Bhagalpuri silk etc, all these are required skillful manpower and focused on each and every aspect of production, logistics and supply chain, innovation strategy and high quality would be useful to enlarge internationally competent. Consequently, there is a need to have a network of dedicated credit institutions, familiar with local conditions and need of MSMEs, on the pattern of agricultural universities, in every state of India. A staunch Entrepreneurship and MSME University (EMU) would need to combine academic teaching faculty with practitioners to nurture MSME sector entrepreneur and skill enhancement to manpower of the priority sector. In the MSME University major stake should be of NBFC and its role as a sponsor in the MSME University. Another innovation is like to remove credit obstacle to establish a financial institution on behalf of government name as Government NBFC who works only for MSME sector as innovator, research and development, find demandable market. Government NBFC should be regulated & sponsor by RBI.



Source- RBI Regulation (Report on Trend and Progress of Banking in India 2017-18, 2018)

Expected Contribution of the Study

The study on the credit role on development of MSME by NBFCs is the need of the economy because it has vast share in the economic development, employment, removal of disguise unemployment, regional development of the country through the study it seen that in the economy MSMEs enterprise is highly financially neglected by the government financial bodies. The study through the light on a financial institution can fulfill the financial need and work as researcher, innovator, incubator, for the MSME sector. Reserve bank of India come forward and set a government NBFCs whom have basic and sole aim is to credit to the MSME sector and work as promoter for the entrepreneurs.

Moreover for creating awareness, to hone skill man power, and for industrial training and education government need to set up a MSME university. Why industry and MSMEs laborers and common people of nation will dependent different skill development schemes like PMKVY, NULM etc. MSME sector highly important in other nation like UK, European Union, America so they become developed country but in our economy the sector become highly financially neglected just because of complex financial system we set up bank than make nationalize but omit no bank who can work specially for the MSME sector if our economy have banks such as IDBI, SIDBI then why the MSME entrepreneurs facing credit obstacles. If such segment of business economy become develop like MSME and NBFCs then employment generation, entrepreneurial growth will be reached and the day is not very far on which India become a develop economy. By entrepreneurship education the benefit directly go to economy as well as to the people who want to become entrepreneurs.

Conclusion

MSMEs have leading hand as engine of growth between manufacturing and services sector to the Indian Economy. The sector have been generator of employment, vast contribution to innovation and incubations with lower investment, capacity to develop indigenous technology and mass share in domestic production. The biggest problems are lack of infrastructure inputs and on requirement and timely basis payments by banking system. RBI-registered 'AAA' and 'AA+' rated NBFCs should be made eligible for becoming Member Lending Institution of CGTMSE, subject to availability of additional corpus of CGTMSE. As regards MSMEs, NBFCs can become game changers by providing factoring and bill payment service which are of critical importance at the present juncture. Most of the NBFCs are list in stock exchange so that raising capital from the public to address the gaps through innovative solutions like credit amalgamation, capacity building of MSME sector through common facility centre, cluster diagnostic studies, credit facilitation centre, credit counseling and advisory services including market information, supporting skill development institutes, supporting incubation and innovation centers, setting up of website to address information asymmetry for the prospective and new entrepreneurs, coming out with various studies reports web-based solutions to address information gap, etc. These developmental initiatives would not only address the emerging needs of the sector, but also will create employment opportunities in this productive sector of the economy.

Reference

- Ardic, O. P., Mylenko, N., & Saltane, V. (2012). *Access to Finance by Small and Medium Enterprises: A Cross-Country Analysis with A New Data Set. Pacific Economic Review*, 17(4), 491–513. <https://doi.org/10.1111/j.1468-0106.2012.00596.x>
- Beck, T., & Demirguc-Kunt, A. (2006). *Small and medium-size enterprises: Access to finance as a growth constraint. Journal of Banking and Finance*, 30(11), 2931–2943. <https://doi.org/10.1016/j.jbankfin.2006.05.009>
- De Moor, L., Wieczorek-Kosmala, M., & Blach, J. (2016). *SME debt financing gap: The case*

- of Poland. *Transformations in Business and Economics*, 15(3), 274–291.
- De, N., & Mondal, and T. (n.d.). *Micro, Small & Medium Enterprises (MSMEs) and Potential Women Entrepreneurs for Inclusive Growth in India. International Journal of Research in Management, Economics and Commerce*, 08(1), 95–107.
- Dr.J.Shanmuganandavadivel, 2 Dr.D.Sasikala Devi, & 1Dean, Nadu, T. (2018). Associate Professor,Sri Ramakrishna College of Arts and Science,Coimbatore, Tamil Nadu,India. 119(18), 3747–3757.
- Eton, M., Mwosi, F., Okello-Obura, C., Turyehebwa, A., & Uwonda, G. (2021). *Financial inclusion and the growth of small medium enterprises in Uganda: empirical evidence from selected districts in Lango sub-region. Journal of Innovation and Entrepreneurship*, 10(1), 23. <https://doi.org/10.1186/s13731-021-00168-2>
- Financial, N. (2020). *Non-banking financial institutions*. 2019(2).
- IFC. (2018). *Financial inclusion for woman-owned micro, small & medium enterprises (MSMEs) in India. International Finance Corporation*.
- JAIN, A. (n.d.). *AN ANALYTICAL STUDY OF NBFCs AND ITS IMPACT ON THE FINANCIAL GROWTH OF THE NATION. International Journal of Humanities and Social Sciences (IJHSS)*, 8(5), 79–88.
- Krishna, S. M. (2009). *Problems and Prospects of Women Entrepreneurs in North Coastal Andhra Pradesh - A Case Study. SEDME (Small Enterprises Development, Management & Extension Journal): A Worldwide Window on MSME Studies*, 36(1), 53–64. <https://doi.org/10.1177/0970846420090106>
- Manickaraj, M. (2010). *Electronica Finance Limited: Designing the Future of Micro, Small, and Medium Enterprises. Vikalpa: The Journal for Decision Makers*, 35(3), 129–140. <https://doi.org/10.1177/0256090920100309>
- OECD. (2006). *The SME Financing Gap, Vol. I: Theory and Evidence. The SME Financing Gap, I*.
- Palai□□, D. K. K. D. S. R. (n.d.). *THE ROLE OF NBFC IN DEVELOPMENT OF INDIAN ECONOMY: A CASE STUDY. International Journal of Advanced Research in Commerce, Management & Social Science (IJARCMSS)*, 02(04), 19–26.
- Pande, E. F. R. (2008). *REPAYMENT FREQUENCY AND DEFAULT IN MICROFINANCE: EVIDENCE FROM INDIA. Source: Journal of the European Economic Association, Vol. 6, No, 501–509*.
- Pattanakar, M. (2016). *Performance of Non-Banking Housing Financial Companies Terms of Profit and Growth in India. International Journal of Creative Research Thoughts*, 4(4), 2320–2882.
- RBI BULLETIN January 2019 VOLUME LXXIII NUMBER 1. (2019). LXXIII(1).
- Report on Trend and Progress of Banking in India 2017-18. (2018). *Institutions, Non-Banking Financial*.
- Sengupta, R., Son, L. L., Vardhan, H., Sengupta, R., Son, L. L., & Vardhan, H. (2022). *A Study of the Non-Banking Finance Companies in India A Study of the Non-Banking Finance Companies in India. June*.
- Shaktikanta Das. (n.d.). *Shaktikanta Das: Micro, small and medium enterprises - challenges and way forward*.