INDIA @ 5 TRILLION

Presented by : Team Mangal

BFSI SECTOR

MSME

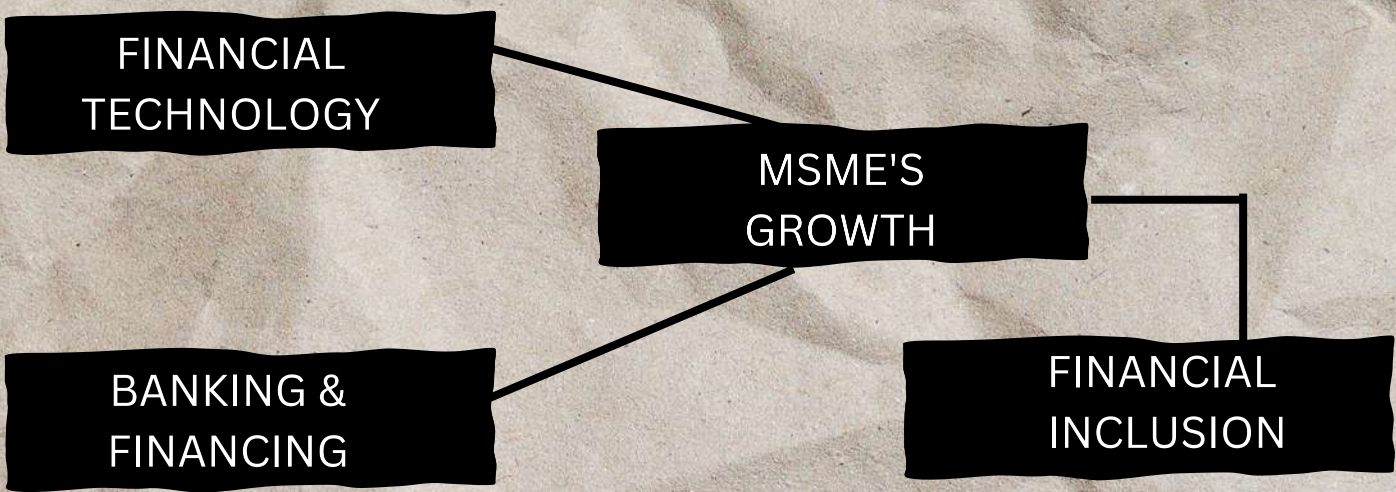
- MSME stands for Micro, Small, and Medium Enterprises.
- MSMEs contribute significantly to the country's GDP, accounting for 29% of India's GDP
- The Government of India has launched various schemes and initiatives to support and promote the growth of MSMEs, such as the Prime Minister's Employment Generation Programme, Credit Guarantee Fund Trust for Micro and Small Enterprises, and the MSME Sambandh portal.

Finance Inclusion

- Provides access to individuals and businesses to useful and affordable financial products & services to meet their financial needs
- Various Government initiatives such as 'Pradhan Mantri Jan Dhan Yojna', 'Atal Pension Yojna', 'SHG', etc.

Micro Finance

- Provides provision of financial services to low-income, poor and self-employed people
- Involves small scale financial services such as savings and credit services to the poor



The Mediating Role of MSME's Growth On Financial Inclusion

CREDIT POLICY

EVOLUTION OF THE POLICY

- Nationalization of banks in 1969
- Formation of NABARD
- Establishment of SDBI
- Introduction of Credit Guarantee Scheme

CHALLENGES FACED DURING IMPLEMENTATION

- High levels of NPA in banking sector.
- Inadequate infrastructure
- Difficulty in reaching remote and under served areas
- Lack of transparency and accountability in banking sector.

ROAD MAP

Inflation control

Economic Growth

Financial stability

Access to credit

Financial inclusion

0ver View of FINANCIAL INCLUSION AND MICRO FINANCE

Financial inclusion refers to the provision of affordable financial services to all sections of society, including the poor and marginalized. Microfinance is a key tool for achieving financial inclusion, as it provides small loans and other financial services to low-income individuals who would otherwise not have access to credit.

The concept of financial inclusion has gained increasing importance in recent years, as policymakers and financial institutions recognize the benefits of providing financial services to the unbanked and underbanked. Financial inclusion can help to reduce poverty, promote economic growth, and foster social inclusion, among other benefits.

One of the main challenges of financial inclusion is the lack of access to formal financial services in many parts of the world, particularly in rural and remote areas. Microfinance institutions (MFIs) have played a key role in addressing this challenge, by providing small loans and other financial services to low-income individuals and micro-entrepreneurs. MFIs typically use a group lending model, in which borrowers are organized into groups and are collectively responsible for repaying the loan.

In addition to microfinance, other financial inclusion initiatives include the use of mobile banking and digital payments, as well as the provision of financial education and consumer protection measures. Governments and international organizations have also taken steps to promote financial inclusion, such as setting targets for financial inclusion, creating regulatory frameworks for microfinance, and providing funding and technical assistance to MFIs and other financial institutions.

Despite the many benefits of financial inclusion and microfinance, there are also some challenges and risks associated with these initiatives. For example, microfinance institutions may face difficulties in achieving financial sustainability and may be vulnerable to financial shocks or crises. Additionally, there are concerns about overindebtedness among microfinance borrowers, as well as the potential for predatory lending practices.

Overall, financial inclusion and microfinance have the potential to bring significant benefits to low-income individuals and communities, and are important tools for promoting economic growth and social inclusion. However, it is important to ensure that these initiatives are implemented in a responsible and sustainable manner, with appropriate regulatory frameworks and consumer protection measures in place.

INTRODUCTION INCLUDING OVERVIEW AND EVOLUTION

The process of providing banking and financial services to every member of society without any kind of prejudice is known as financial inclusion. Without considering a person's income or savings, it essentially seeks to involve everyone in society by providing them with basic financial services. Financial inclusion is primarily concerned with giving trustworthy financial assistance to those in the economically disadvantaged parts of society without discrimination. It is also dedicated to transparency while providing financial support without any additional fees or unexpected charges.

Only a proper mechanism that distributes all resources from top to bottom can ensure inclusive growth. Because India is thought to have the largest rural population in the world, financial inclusion is a novel idea that uses alternative methods to encourage rural residents' banking habits. Since the poor currently wind up paying extremely high-interest rates when borrowing money from money lenders, financial inclusion aims to provide banking and financial services to all people in a fair, transparent, and equal manner at an affordable cost.

Only the middle and upper echelons of society were able to get formal forms of credit for several years. Poor people have little choice but to rely on illegitimate and unauthorized kinds of credit. As a result of their lack of education and basic financial skills, many of them were taken advantage of by opportunistic and wealthy members of society. Many low-income people have been taken advantage of for years in the name of financial aid. Low-income families find it more challenging to save money and make long-term financial plans because they frequently lack access to bank accounts and must spend time and money making several trips to the bank to use their services.

Everyone in society should be involved and take part in wise financial management, according to financial inclusion. In India, many low-income households lack access to financial services. They are ignorant about banks' operations. Many poor people lack access to banks' services, even when they are aware of them. Also, they might not meet the minimum eligibility requirements established by banks, which would prevent them from obtaining a bank's services. For some services, banks set restrictions such as a minimum income, minimum credit score, age requirements, and a minimum number of years of work experience. Only if an applicant satisfies these requirements will a bank provide him or her with a deposit.

MILESTONE

According to RBI, the value of the annual Financial Inclusion (FI) Index for March 2022 just released stands at 56.4 vis-à-vis 53.9 in March 2021, with growth witnessed across all the sub-indices. Since it was introduced by RBI from March 2021 taking base year in March 2017, coming years will indicate the incremental improvements and its consistency.

In one year, the FI index (FII) could rise by 2.5 points, a commendable comprehensive growth. It was just 43.4 in March 2017. Last five years could witness its rise by 13 points indicating the spurt on account of increased banking penetration, presence of banking touchpoints and digitalization. Its pace is picking up steadily with differentiated banks – Small Finance banks and Payment Banks expanding its network. It could be better perceived if the entire basis of its computation is considered.

FINANCIAL INCLUSION TIMELINE

The concept of financial inclusion, extending financial services to those who typically lack access, has been a goal for the Government of India since the 1950s.

The nationalization of banks, which occurred from the mid-1950s to the late 1960s, culminating in 1969 with the nationalization of 14 commercial banks by Prime Minister Indira Gandhi, brought banking facilities to previously unreached areas of the country. The "branching" of banks into rural areas increased lending for agriculture and other unserved rural populations and Indira Gandhi spoke of it as a tactic to "accelerate development" and to address poverty and unemployment.

The Lead Bank Scheme followed nationalization to coordinate banks and credit institutions by districts to more comprehensively ensure that rural areas had their credit needs met. In 1975, the Government of India followed this with efforts to specifically reach rural areas by establishing Regional Rural Banks (RRBs) meant to exclusively meet demand in the rural economy and the number of RRBs has significantly increased over the years.

By the early 2000's, the term 'financial inclusion' was being used in the Indian context. In 2004 the Khan Commission, created by the RBI, investigated the state of financial inclusion in India and laid out a series of recommendations. In response, RBI Governor Y. Venugopal Reddy, expressed concern regarding the exclusion of millions from the formal financial system & urged banks to better align their existing practices with the objective of financial inclusion in both his annual and midterm policy statements. The RBI has continued in its efforts in conjunction with the Government of India to develop banking products, craft new regulations, and advocate for financial inclusion.

MICRO-FINANCE TIMELINE

In order to govern the microfinance industry, the Reserve Bank of India (RBI) published rules for NBFC-MFIs (Non-Banking Financial Companies - Microfinance Institutions). 2005: The RBI permitted MFIs to charge loan rates up to 24%, which sparked the sector's quick expansion. The first microfinance organization in India to get equity funding from a private equity firm was_SKS Microfinance in 2006. India's microfinance industry experienced a crisis in 2010 as a result of predatory lending practices and customers who were overextended. In 2011, the RBI published new guidelines to control the microfinance industry in India. These guidelines contained limits on interest rates as well as limitations on duplicate lending. In order to establish a legal framework for the microfinance industry, the Microfinance Institutions (Development and Regulation) Bill was introduced in Parliament in 2013.

One key milestone in the evolution of this regulatory framework was the constitution of the committee under the Chairmanship of Shri Y. H. Malegam. Based on the recommendations of this Committee, RBI introduced a comprehensive regulatory framework for NBFC-MFIs in December 2011. The regulations prescribed the eligibility criteria for microfinance loans which was linked to core features of microfinance i.e., lending of small amounts to borrowers belonging to low-income groups without collateral, with flexible repayment schedules. Besides, the regulations laid special emphasis on protection of borrowers and fair practices in lending such as transparency in charges, ceilings on margins and interest rates, non-coercive methods of recovery, measures to contain multiple lending and over-indebtedness.

Indian microfinance sector has witnessed phenomenal growth over past two decades in terms of increase in both - the number of institutions providing micro finance as also the quantum of credit made available to the micro finance customers. Presently, micro credit is delivered through a variety of institutional channels viz., scheduled commercial banks (SCBs), regional rural banks (RRBs), cooperative banks, non-banking financial companies (NBFCs), Section 8 companies and microfinance institutions (MFIs) registered as NBFCs as well as in other forms. The small finance banks (SFBs) are the latest game in the town. The institutional landscape of the microfinance sector has also changed significantly after licensing of Small Finance Banks. One out of two entities which was granted approval for starting a universal bank in 2014 was an NBFC-MFI, while eight out of ten entities granted approval for starting Small Finance Banks in 2016 were NBFC-MFIs. This, apart from further consolidation in the sector, has led to significant changes in the market dynamics with the share of specialized MFIs standing at a little over 30 per cent as on June 30, 2021 in the overall gross loan.

The goal of financial inclusion is to remove these obstacles and offer reasonably priced financial services to the less fortunate segments of society so they can become financially independent without relying on charity or other unsustainable sources of funding. Financial inclusion aims to increase societal understanding of financial services and money management.

Financial inclusion is needed for equal opportunities for all sections of people in the country, inclusive growth, economic development, social development, and business opportunity. The essential contents of financial inclusion are: -

- Remittance
- Insurance Financial Counselling
- Credit Bank accounts
- Savings

Access to Financial Services by Households

By encouraging a culture of saving among a significant portion of the rural population, financial inclusion broadens the financial system's resource base and contributes to economic growth on its own. Furthermore, financial inclusion safeguards low-income groups' financial assets and other resources in emergency situations by bringing them within the boundaries of the formal banking sector. By providing simple access to formal credit, financial inclusion also reduces the abuse of weaker groups by money lenders.

Notwithstanding the fact that the nationalization of banks in India began in spirit between 1969 and 1980, the genuine push for financial inclusion (FI) emerged in 2005 when the Reserve Bank of India (RBI) emphasized its importance in its annual policy statement for 2005–2006.

In a 2005 Annual Report, then-RBI Governor Y. Venugopal Reddy initially presented the idea of financial inclusion in India. The goal was to integrate the country's unorganised sector, particularly in rural areas, into a formal financial system. Since then, the RBI and the Indian government have taken a number of steps to include the rural poor in the financial sector. The first hamlet in India to offer fund.

amental financial services to every household was Mangalam. The effort to promote financial inclusion started with the establishment of basic bank accounts for citizens all around the nation. Subsequently, the RBI's priority switched to giving the underprivileged and destitute access to simple loans. To make it easier for the impoverished to access credit, General Credit Cards (GCCs) and Kisan Credit Cards (KCCs) were created. Following the Khan Committee's recommendations, RBI created the Business Correspondent/Business Facilitator (BC/BF) model because it was challenging to extend the reach of financial services through brick-and-mortar offices throughout the nation's 600,000 communities.

Farmers in Maharashtra State frequently committed suicide as a result of increased harassment from moneylenders. The then-existing moneylending legislation was determined to be insufficient to safeguard farmers and borrowers and shield them from the harassment of moneylenders. In order to effectively prevent the harassment of farmers who are in debt at the hands of moneylenders, the government was forced to implement the necessary strict social and legal measures. On January 16, 2014, the Maharashtra Money-Lending (Regulation) Ordinance, 2014 went into effect.

When it comes to advancing financial inclusion in India, Non-Banking Financial Companies (NBFCs) have been at the vanguard, providing credit to underserved groups like rural households and small companies. They have significantly contributed to expanding formal finance availability and encouraging inclusive growth. Over 9500 NBFCs exist, including asset reconstruction firms, NBFCs that accept deposits, NBFCs that do not accept deposits, etc.

Due to the government's emphasis on financial inclusion and the rising demand for credit from various societal segments, NBFCs have played a larger role in financial inclusion over the past several years. According to the most recent bureau data for the month of June 2022, there were roughly 15 million credit enquiries with NBFCs, on par with those with private sector and PSU banks. They offer all different types of credit, including, but not limited to, personal loans, consumer loans, home loans, auto loans, gold loans, etc. New to credit clients represent one of NBFCs' greatest potential. These are individuals who have never before borrowed money. Banks are worried about these consumers' creditworthiness. Due to their difficulties with financial literacy, this group turns to the unorganised informal sector for their borrowing need.

RATIONALE OF FINANCIAL INCLUSION

- WHAT IF FINANCIAL INCLUSION IS NOT THERE IN AN ECONOMY?
  1. WEAKER SECTIONS OF INDIA WOULD GO TO MONEY LENDERS DURING THE NEED OF MONEY WHICH IN THE END EXPLOITS THEM BY CHARGING HIGH INTEREST RATES.
  2. SO PEOPLE FALL INTO DEBT TRAPS.
  3. THUS, LEADING TO FINACIAL EXCLUSION
  4. WHEN THERE IS AN UNHAPPENING SITUATION (SUDDEN DEATH OR NATURAL DISASTER), PEOPLE DON'T HAVE ACCESS TO FUNDS.
  5. CRIMES SUCH AS HUMAN TRAFFICKING, CHILD LABOUR, PROSTITUTION AND OTHERS INCREASES.

- WHAT IF FINANCIAL INCLUSION IS PRESENT IN AN ECONOMY?
  1. PEOPLE WILL START SAVING AND THUS IT BECOMES AN INVESTMENT FOR FUTURE AS THEY WOULD EARN INTEREST ON IT.
  2. UNBANKED PEOPLE TURNS TO BANKED PEOPLE.
  3. BANKS HELP TO BUSINESSMEN BY PROVIDING CAPITAL.
  4. IT LEADS TO HARMONY AS THERE IS EASY AVAILIBILITY OF LOANS AT AFFORDABLE INTEREST RATES AND EMPOWERS WOMEN DEVELOPMENT.
  5. SUCH LOANS CAN BE USED FOR START-UPS, SKILL DEVELOPMENT ETC

OBJECTIVES OF FINANCIAL INCLUSION

- To study the current situation of financial inclusion in India.
- To highlight the initiative taken by government authorities.
- To create awareness about the rights among the low-income group.
- To empower the people leading to development of household, village and finally the nation.

METHODOLOGY

- **FINDING DATA ONLINE**
  We have thoroughly researched various websites and collected data which we have analyzed carefully and included in the information given above. We went to various blogs related to finance which were very helpful while doing the research.

- **SEARCHING DATA EDUCATIONAL INSTITUTIONS HAVE PUBLISHED**
  We have gone through various case studies provided on the college provided e-library sites such as Sage Cases, Academia.edu, etc. We

- **SEARCHING DATA ARCHIVES THAT BELONG TO VARIOUS AGENCIES**
  Many government agencies host collections of their own research. The data provided is accurate on these government sites. Hence we have visited site of RBI for related information.

DEMONETIZATION'S IMPACT ON FINANCIAL INCLUISION OF INDIA

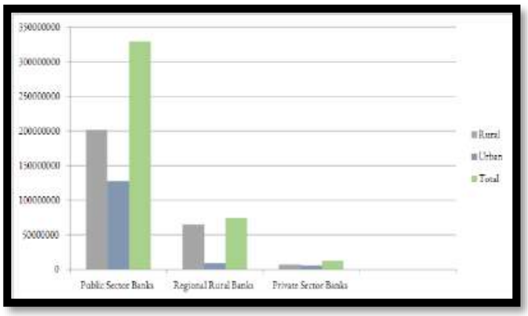
Demonetization started in the year 2016. When government was no longer accepting the existing 500- and 1000-rupees notes. This led to social and economic disturbance. But in the end it boosted the financial inclusion process. The major reasons of the boost are as follows.

- Significant growth in banks and bank deposits.
- Marginal cost of funds-based lending rates (MCLR)
- Digital finance

GOVERNMENT'S INITIATIVE TO ATTAIN FINANCIAL INCLUSION IN INDIA

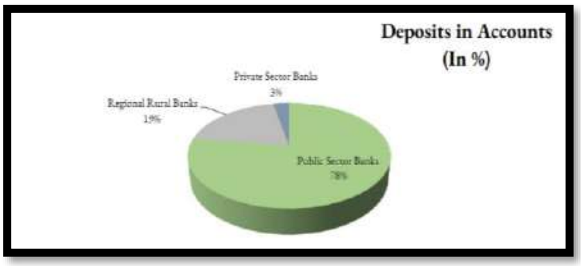
1. **PRADHAN MANTRI JAN DHAN YOJANA (PMJDY) –**

- This scheme was inaugrated by shri modiji, in august 28, 2014. It ensurures that there are atleast 2 bank accounts in each household or one bank account of each individual.
- Facilities like rupay cards along with mobile banking will be provided to users.
- To keep the account alive cash benefits transfers such as pensions subsidies will be provided through accounts of jan dhan yojana



RURAL AND URBAN BENEFICIARIES OF PRADHAN MANTRI JAN DHAN YOJANA

Table 1 (refer to appendix) shows data of rural and urban beneficiaries in "Pradhan Mantri Jan-Dhan Yojana (PMJDY)". • Table 1 and Fig. 1 clearly show that maximum no. of beneficiaries were in Public Banks (80 % approx.) followed by Regional Banks (18 % approx.) & last in Private Banks (3 % approx.). • Above data shows that majority of beneficiaries trusted Public Banks more as compared to other banks. • About 90% of urban beneficiaries and about 74% of rural beneficiaries were in Public Banks.



TOTAL AMOUNT OF BANK DEPOSITS UNDER PRADHAN MANTRI JAN DHAN YOJANA

Total amount deposits in bank accounts Table 2 (refer to appendix) shows data of total amount of deposits in Bank Accounts under "Pradhan Mantri Jan-Dhan Yojana (PMJDY)". • The above data shows that approx 78% of amount in being deposited in Public Banks and approx 19 % of amount in being deposited in Regional Banks & only approx 3 % of amount in being deposited in Private Banks. • Above data shows that majority of beneficiaries trusted Public Banks more as compared to other banks for their deposits

It includes following social social security schemes:-

A."Pradhan Mantri Suraksha Bima Yojana (PMSBY)"

The government of India launched the Pradhan Mantri Suraksha Bima Yojana to encourage its citizens to access and obtain insurance coverage. Subscribers receive two types of insurance coverage—accidental death or total disability and partial disability insurance cover—for a minimum annual subscription of Rs.12 under the scheme.

Both types of insurance have periods that range from two to four years. Insurance coverage for partial disability is up to Rs. 1 lakh, and it is Rs. 2 lakh for total disability or death. In the case of a long-term insurance plan, the tax-free premium is automatically deducted from one's bank account. Subscribers have the option of designating a family member to receive insurance benefits in the event of their demise or total disability.

A. "Atal Pension Yojana (APY)" –

IT is a pension programme that focuses on assisting the working poor to have a steady income after retirement. Pradhan Mantri Jan Dhan Yojana (PMJDY) is a government programme launched by the government of India to provide easy access to financial services such as Remittance, Credit, Insurance, Pension, Savings and Deposit Accounts to poor and needy section of our society. The Atal Pension Yojana pension programme was introduced by the Indian government in 2015–16. The intention to provide pension benefits to those who work in the unorganised sector drove its implementation. This programme is managed and regulated by the Pension Funds Regulatory Authority of India (PFRDA).

B. "Pradhan Mantri Mudra Yojana (PMMY)".

In 2015, Pradhan Mantri Yojana was introduced with the goal of assisting small businesses in growing and succeeding. Through this programme, businesses in the for-profit and non-profit sectors can apply for loans, with the maximum amount they can receive being Rs. 10 lakh. Under the Pradhan Mantri Yojana programme, the following business categories are eligible to apply for loans: Railway Recruitment Boards (RRBs), Micro Finance Institutions (MFIs), Commercial Banks, Non-Banking Financial Corporations (NBFCs), and Small Finance Banks.

2. **DBT –**
   This programme ensures that funds from VARIOUS development programmes reach beneficiaries quickly and directly.

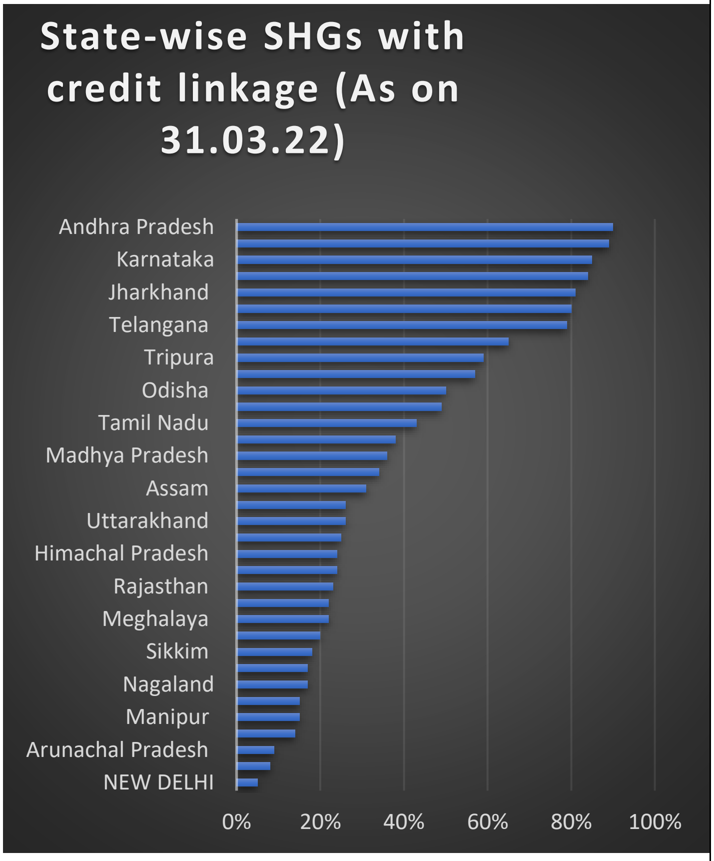
3. **RUPAY CARD-**
   This card allows to do transanction via electronic payments.

4. **BHARAT INTERFACE FOR MONEY (BHIM)-**
   It started in 2016 and promotes online payments. It ensures there is secure , quick and dependable transactions.

5. **INITIATIONS OF NO FRILL ACCOUNTS**-Accontholders use the accounts for simple transactions , deposits and withdrawals removing the features which are not applicable to lower income group. Thus, it's inexpensive for them.
6. **SWABHIMAN-**
   Opening bank accounts in areas with a low population, At the very least, through a cash-services based business correspondent model. Habitats with more than 1600 inhabitants in plain areas and 1000 in mountainous and north-eastern states.
7. **RELAXED AND SIMPLIFIED KYC NORMS-**
   To make it easier for people to open bank accounts, particularly modest ones. Furthermore, banks are permitted to use the Aadhar card as

both identification and an address proof.

8. **Stand Up India Scheme:** In India, women and people from the SC/ST communities who want to start their own businesses have historically faced difficulties getting loans. However, in an admirable effort to recognise and address these difficulties experienced by women and members of the SC/ST communities, Prime Minister Narendra Modi introduced the Stand Up India Initiative in April 2016. This program's goal was to give at least one SC/ST and one woman borrower from each bank branch a bank loan in the amount of Rs. 10 lakh to Rs. 1 crore so they can start a greenfield business that could be involved in services, manufacturing, or commerce.
9. **Sukanya Samriddhi Yojana** –
   On January 22, 2015, Prime Minister Narendra Modi introduced the Sukanya Samriddhi Yojana programme at Panipat, Haryana. Through eliminating sex discrimination, protecting girls, and increasing the participation of girls in education and other professions, the programme aims to improve the lives of young girls in the nation.
10. **Kisan Credit cards (KCCs)**-
    Under this scheme, banks issue smart cards to farmers for providing timely and adequate credit support from single window banking system for their farming needs. During 2012-13, public and private sector banks issued 1.2 million smart cards as KCCs
11. **Self Help Group** –
    Bank Led Initiative (SLBP) The SLBP or Self Help Group – Bank Linkage Program has been the major institutional based innovation in India for enabling access and covering the gap of reaching financially excluded population of the country in the last two decades. In this model, the banks involve themselves with a group of local people, with the idea of enabling



them to pool their savings. The same is deposited with the bank against which the bank also provides a certain amount of credit facility. The group takes a decision whether to lend to any member of the group or not. The bank provides the framework, accounting services and support to the group to manage their deposits and lending. Thus the model has an approach of savings first, lending later.

12. State-wise, credit linkage status of SHGs as on 31 March 2022 is depicted in Fig. 2.7. Overall, out of 118.93 lakh SHGs savings

linked, 57% SHGs have loans outstanding with banks. Nine states have credit linkage percentage higher than the All India average. Andhra Pradesh is leading with 90% of its SHGs having loans outstanding, followed by Bihar (89%) and Karnataka (87%). Southern and Eastern states dominate the list along with Tripura. The average size of loan outstanding as on 31 March 2022 has increased in all States compared to the position as on 31 March 2021. The increase is highest in Chandigarh (432%), followed by Jharkhand (155%) and Manipur (139%).

13.Aadhaar Enabled payment services

In this system, Indian citizen having an Aadhaar number updates his/her account with the same. All accounts having aadhaar number updated are reported to RBI, which in turn reports it to various government departments. While making payments to people for working under initiatives like MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act)or various subsidy schemes, the departments use this information for directly crediting the money to the beneficiaries account. This not only reduces the delay in the benefits being received by the end user, but also reduces chances of corruption in the distribution of the benefits under schemes. Also the unique biometric identification data stored in the Aadhaar database empowers a bank customer to use Aadhaar as his/her identity to access various financial services.

BARRIERS FACED BECAUSE OF FINANCIAL INCLUSION –

- Distances are too long for servicing and supporting the accounts.
- Human resources related constraints both in terms of inadequacy of manpower and lack of proper orientation/expertise.
- High transaction costs particularly in dealing with many small accounts.
- Lack of collateral security.
- Lack of data base and absence of credit history of people with small means.
- Expanding branch network is not feasible and viable.
- Lack of awareness about the rights that are made for the low income group.
- Lack of robust technology.

ROADMAP

The finance minister's budget speech for 2023 has proposed AMRITKAAL. Union Budget 2023 has brought many significant changes in India's socio-economic paradigm. This budget has laid down reforms with an eye on furthering financial inclusion at scale, better & faster service delivery, ease of access of credit, digitization of the Indian economy and participation in financial markets.

The capex target for FY 2023 has been upped by 33% which shall boost credit growth in the banking system, accelerate economic growth and drive job creation. It seems credit growth is on the agenda of this budget as the borrowing target too is within the street expectations thereby helping the banks limit MTM losses. Further, the revamped credit guarantee scheme that is to take effect from April 1, 2023 shall infuse about INR 9,000cr. in corpus and INR 2 lakh cr. collateral free credit to MSMEs. The capital incentives shall boost investment in infrastructure & productive capacity which will have a multiplier impact on economic growth and employment opportunities.

The budget proposes to deploy a National Financial Information Registry, the draft bill for which has already been prepared by the [RBI](). It aims to build a public infrastructure for credit related information, especially for lending agencies thereby acting as the central repository for financial & ancillary information. This shall ease the understanding of risks, better pricing of loans, facilitate efficient credit flow and foster financial stability.

There has been a lingering need to rationalize and streamline the onboarding of customers and small businesses in digital financial services. The Union Budget 2023 seeks simplification of the KYC process to make it user -friendly and comprehensible. It will be done by making suitable amendments to the Prevention of Money Laundering Act and RBI Directions of KYC. This shall require a risk based approach instead of one-size-fits-all approach to enable meeting of needs a knowledge based digital economy. This will be done with the help of PAN as the common business identifier and Aadhar as the foundational identity of DigiLocker. The DigiLocker services provide a one stop solution for conciliation and updates to the identity and address of individuals. PAN as the common business identifier and DigiLocker shall significantly reduce the burden of overlapping and iterative documentation and will act as a one stop solution for reconciliation and identification purposes. These initiatives are projected to significantly ease the onboarding process of fintech companies for their consumers & small merchants.

The annual financial statement also seeks for a comprehensive review of the extant regime governing the financial markets in consultation with the stakeholders. The goal is to cut back on unnecessary, time-consuming, costly and tedious compliances. This shall facilitate optimum regulation as necessary and feasible. Additionally, the budget seeks to suitably amend the Banking Regulation act, Banking companies act, and the RBI Act so as to improve governance and investor protection. This shall aid in upgrading and aligning with evolving market practices. One could infer that the government has followed the objectives of Ease of Doing Business & [Digital India]() initiatives by addressing procedural lacunae and strengthening the technological infrastructure. The policy reforms introduced in the Union Budget, 2023 strike a balance between the growth-based and welfare-based policies with a three-pronged approach of opening up more opportunities for the citizens, economic growth and reinforcing macroeconomic stability.

Substantial investments in social and physical infrastructure as well as in financial literacy, need-based products, and services along with innovative delivery mechanism are essential to enable the economy in achieving inclusive growth. Investment in physical infrastructure will lead to the generation of employment, improve efficiency, reduce cost and thus will improve the overall standard of living. Investment in financial literacy is considered as the most crucial step without which any policy action with regard to financial inclusion will remain futile. It is the need of the hour to educate the target section about the available services and to create an awareness about their rights.

Banks need to focus more on introducing tailor-made services and deliver it through a better and effective mechanism. The credit disbursement should be made more flexible in order to attract the consumers who are used to informal sources of credit. Encouraging NGOs and MFIs to participate in this process will help identify default risk as they work closely with the target population. Provision of general credit card (GCC) or a limited OD against no-frills account will increase the access of credit. It will be ideal if affordable insurance and remittance facilities are encompassed in the same plan. Banks should extend the service of BCs to include Kirana shops and other local enterprises. At the same time, BCs need to be properly incentivized and monitored by the banks. Leveraging modern technology, eliminating multiple layers of governance, easing procedures and better participatory role by benefactors can help in building a better delivery mechanism that provides greater confidence and security.

An affordable and accessible platform to avail the services should be provided. Post offices could play a proactive role in inclusive growth in areas where there are no banks and other formal financial institutions. A low-cost solution, based on mobile technology can be a good platform to deliver financial services. Reducing the risk of agent misconduct, investing in audit studies, conducting risk management assessments, usage of new and improved technologies to provide information, and keeping the consumers updated of the changes are some of the popular and effective strategies that India could adopt from countries like across Asia and Africa in our journey to an all-inclusive economic growth.

There is a strong need to restructure the financial system, particularly the services available for the rural population. A coordinated drive for financial inclusion involving educational institutions is necessary to promote financial literacy. Regular surveys should be conducted in villages to understand financial needs of the people and to check whether the products available are actually utilized by them and meets their expectations. RBI should allow telecom service providers to provide enhanced banking products at affordable prices. Giving authorization to microfinance as well as non-banking financial organizations to perform limited mainstream financial services in remote areas can help improve the reach of the program. These measures, if effectively implemented guarantees to accelerate the process of inclusive growth.

CONCLUSION

Financial inclusion is not a short-term goal. It is a progressive initiative, which will evolve itself over a period of time. The short-term opportunities should be made use of and the shortcomings should be duly corrected in order to accelerate the process of inclusion. The opportunities and challenges provide useful insights regarding innovative ways of economic value addition, which help the Nation reach a growth trajectory that is sustainable. Therefore, policymakers should focus on developing policies considering a sustainable banking services delivery model and need-based products for rural and urban consumers.

REFERENCES

- Bagli, S., & Dutta, P. (2012). A study of Financial Inclusion in India. Radix international journal of economics & business management, 1(8), 1-18.
- Boateng, K. (2018). Financial Inclusion for Economic Growth - An Overview of Some Financial Inclusion Policies in India. Kaav International Journal of Economics, Commerce & Business Management, 5(1), 53-59.
- Chauhan, A. A. (2013). A study on overview of Financial Inclusion in India. Indian journal of applied research, 3(12), 351-353.
- Desai, M. P. (2016). Present Scenario of Financial Inclusion In India. Paripex - Indian Journal of Research, 356-357.
- Dixit, R., & Ghosh, M. (2013). Financial inclusion for inclusive growth of India-A study of Indian states. International Journal of Business Management & Research, 3(1), 147-156.
- Garg, S., & Agarwal, P. (2014). Financial inclusion in India-a Review of initiatives and achievements. IOSR Journal of Business and Management, 16(6), 52-61.
- Kumar, A., & Gupta, H. (2019). Financial Inclusion and Farmers: Association between Status and Demographic Variables. International Journal of Recent Technology and Engineering, 5868-5879.
- Ozili, P. K. (2020). Financial inclusion research around the world: A review. Forum for social economics, 1-23.
- Paramasivan, D. C., & Kumar, G. A. (2019). Factors Determining Digital Financial Inclusion in Tirunelveli District. The International journal of analytical and experimental modal analysis, 2296-2306.
- Prakash, M. (2020). Financial Inclusion Plan - Progress and Prospects. International Journal of Research and Analytical Reviews, 977-981.

OVERVIEW OF MSME POLICY

The Ministry of Micro, Small and Medium Enterprises is the ministry in the Government of India. Which is the topmost executive body for the formulation and administration of rules, regulations and laws relating to micro, small and medium enterprises in India.
The Minister of Micro, Small and Medium Enterprises is Narayan Rane. The MSME ministry has a target to strengthen the backbone of the country targeting its increase in contribution towards GDP by up to 50% by 2025 as India moves ahead to become a $5 trillion economy.
The Government of India provides a variety of support for MSMEs and startups which includes giving loans, financial aid, tax incentives and other programs. This includes tax exemptions for certain types of businesses, reduced tax rates for certain businesses, and other incentives.

They also have schemes such as the Credit Linked Capital Subsidy Scheme (CLCSS) and the Credit Guarantee Scheme (CGS). These schemes offer access to credit to MSMEs and startups.

The Government of India also provides assistance to MSMEs and startups through its various incubation and acceleration programs. These programs work with early-stage companies to get them to move beyond their embryonic phase. These programs provide access to mentors, funding, and other resources to help entrepreneurs develop and grow their businesses and promoting skill development and innovation in MSMEs.

There are several private organizations and initiatives that provide support to MSMEs and startups. These include venture capital firms, angel investors, and incubators. These organizations provide access to capital and other resources to help entrepreneurs start and grow their businesses.

Micro, Small, and Medium Businesses is referred to as MSME. These are companies with a small number of employees that fall inside a specified annual revenue range or asset value range. MSMEs are defined differently in different countries, but they are typically regarded as the foundation of the economy because of their considerable contributions to employment, innovation, and economic growth.

For instance, MSMEs in India are classified as follows based on their annual turnover or asset value: tiny businesses: up to INR 1 crore in annual revenue or INR 5 crore in capital expenditures for equipment. Small businesses: annual revenue up to INR 10 crore or an investment in plant and equipment of INR 50 crore. Medium-sized businesses: maximum annual sales of INR 250 crore or INR 50 crore

The MSME (Micro, Small, and Medium Enterprises) policy is a set of guidelines and initiatives created by the government to promote the growth and development of micro, small, and medium enterprises in India. The policy aims to provide a conducive environment for the growth of MSMEs by addressing their specific needs and challenges.

Some of the key features of the MSME policy include:

Financial support: The policy provides various financial support schemes for MSMEs, such as collateral-free loans, credit guarantee schemes, and subsidies for technology upgradation.

Skill development: The policy emphasizes the need for skill development and training for MSMEs to improve their productivity and competitiveness. Various skill development programs and training schemes are offered to help MSMEs improve their capabilities.

Infrastructure development: The policy focuses on creating a supportive infrastructure for MSMEs, such as the establishment of industrial estates, technology parks, and incubation centers.

Market promotion: The policy aims to promote the marketing of MSME products by providing them with access to national and international markets, participation in trade fairs and exhibitions, and assistance with branding and packaging.

Technology upgradation: The policy recognizes the importance of technology upgradation for MSMEs and provides various incentives for the adoption of modern technologies and innovative practices.

Overall, the MSME policy is designed to create a supportive ecosystem for the growth of MSMEs, which are considered the backbone of the Indian economy. By providing financial support, skill development, infrastructure, and market promotion, the policy aims to enhance the competitiveness of MSMEs and enable them to contribute to the country's economic growth and development.

OBJECTIVES

To examine if MSME generate large scale employment In India.

To examine whether MSME help to sustain economic growth and increase exports.

To examine whether MSME play a main role in contributing the mission of “Make in India”.

Introduction of MSME Policy

The Ministry of Micro, Small, and Medium Enterprises is the ministry in the Government of India which is the top executive body for the formulation and administration of rules, regulations, and laws relating to micro, small and medium enterprises in India. The Minister of Micro, Small, and Medium Enterprises is Narayan Rane. The MSME ministry has a target to strengthen the backbone of the country targeting its increase in contribution towards GDP by up to 50% by 2025 as India moves ahead to become a $5 trillion economy. The Government of India provides a variety of support for MSMEs and startups which includes giving loans, financial aid, tax incentives, and other programs. This includes tax exemptions for certain types of businesses, reduced tax rates for certain businesses, and other incentives.

They also have schemes such as the Credit Linked Capital Subsidy Scheme (CLCSS) and the Credit Guarantee Scheme (CGS). These schemes offer access to credit to MSMEs and startups. The Government of India also provides assistance to MSMEs and startups through its various incubation and acceleration programs. These programs work with early-stage companies to get them to move beyond their embryonic phase. These programs provide access to mentors, funding, and other resources to help entrepreneurs develop and grow their businesses and promote skill development and innovation in MSMEs. In addition to these official government initiatives, there are several private organizations and initiatives that provide support to MSMEs and startups. These include venture capital firms, angel investors, and incubators. These organizations provide access to capital and other resources to help entrepreneurs start and grow their businesses. Facilitating the adoption and participation of modern technologies in public procurement.

Evolution of MSME Policy

- 1948-1990
  - Expansion in employment opportunities.
  - Equitable distribution of the national income.
  - Effective mobilization of private sector resources of capital and skills.
  - Access to bank credit.

- 1991-1999
  - The new policy for small, tiny, and village enterprises of August 1991, laid the framework for government support in the context of liberalization.
  - Small Industries Development India (SIDBI) and a Technology Development and Modernization Fund to accelerate finance and technical services.
  - Delayed Payment Act was enacted to facilitate prompt payment of dues to MSMEs.
  - Industrial Infrastructure Development (IID) scheme was launched to set up mini-industrial estates for small industries.

- 1999 onwards
  - Credit Linked Capital Subsidy Scheme launched to encourage technology upgradation.
  - Equity holding of 24%, prescribed for industrial undertakings, both domestic and foreign.

- ➢ The Government of India launched the Micro, Small, and Medium Enterprises (MSME) Development Act to promote entrepreneurship among small businesses in India. This act provided for the setting up of an MSME Fund to provide credit at concessional rates for micro, small, and medium enterprises. It also provided a single window clearance system for the registration of these firms.

- 2000-2009
- ➢ The Ministry of Small-Scale Industries was renamed as 'Ministry of Micro, Small and Medium Enterprises'.
- ➢ In 2002, the government introduced a 'Credit Linked Capital Subsidy Scheme' (CLCSS) which aimed at providing capital subsidy on term loans taken by eligible MSMEs from scheduled commercial banks or financial institutions.
- ➢ In 2006, the government launched the 'Credit Guarantee Fund Scheme (CGFS) to provide credit guarantee cover for loans up to Rs 1 crore extended by banks/financial institutions to eligible MSMEs without collateral security and third-party guarantee.

- 2010-Present
- ➢ In 2010, the Government of India introduced a new scheme called the 'Technology Upgradation Fund Scheme (TUFS) which aimed at providing financial assistance for the modernization and technology upgradation of micro and small enterprises in India.
- ➢ In 2012, a special package was announced by the Government of India under which it provided incentives such as interest subsidies on loans taken by MSMEs from scheduled commercial banks or financial institutions. The government also set up a dedicated 'MSME Facilitation Council to provide easy access to credit and other resources for MSMEs.
- ➢ In 2018, the government launched a new scheme called 'Pradhan Mantri Mudra Yojana' to provide collateral-free loans up to Rs 10 lakhs for micro and small enterprises.

Overview of MSME Policy

The preparation of this MSME Policy and Strategy document was facilitated by BELTRAIDE with financial support from the CDF. The development of this Policy and Strategy Document was guided by the need to:

- Develop a coherent Micro, Small and Medium Enterprise (MSME) Policy and Strategy.
- Provide technical information for incorporation into an MSME Development Act.
- Achieve consensus on the definition of MSMEs.

Prioritize key development programs and recommend an appropriate monitoring and evaluation system.

Manufacturing Sector	
Enterprise Category	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees

Service Sector	
Enterprise Category	Investment in equipment
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

Estimated Number of MSMEs (Activity Wise)

Categories	Estimated No. of Enterprises(in lakh)			
	Rural	Urban	Total	Share %
Manufacturing	114.14	82.5	196.65	31
Trade	108.71	121.64	230.35	36
Others	102	104.85	206.85	33
Electricity*	0.03	0.01	0.03	0
All	324.88	309	633.88	100

Milestones

The MSME policy has undergone several changes since its inception, with the Indian government continuously introducing measures to promote the growth and development of the sector. Here is an overview of the key changes in MSME policy since the start:

1. 1948: Industrial Policy Resolution: The first industrial policy resolution in India recognized the importance of small-scale industries in the overall economic development of the country.

2. 1953: Cottage and Small-Scale Industries Policy: The Indian government announced a policy for the development of cottage and small-scale industries, providing various incentives such as tax exemptions, subsidies, and credit facilities.

3. 1978: The Khadi and Village Industries Commission Act: The Khadi and Village Industries Commission Act was passed, aimed at promoting and developing khadi and village industries for providing employment in rural areas.

4. 1982: National Bank for Agriculture and Rural Development (NABARD): NABARD was established to provide financial support and assistance to small and rural entrepreneurs.

5. 1991: Economic Liberalization: The economic liberalization policy introduced by the Indian government brought about significant changes in the industrial and economic landscape, including the MSME sector.

6. 2002: Prime Minister's Task Force on MSMEs: The Prime Minister's Task Force on MSMEs was set up, which recommended measures to improve the credit flow and access to technology for the MSME sector.

7. 2006: Micro, Small and Medium Enterprises Development Act: The MSME Development Act was enacted, which defined and categorized micro, small and medium enterprises and provided for their development and promotion.

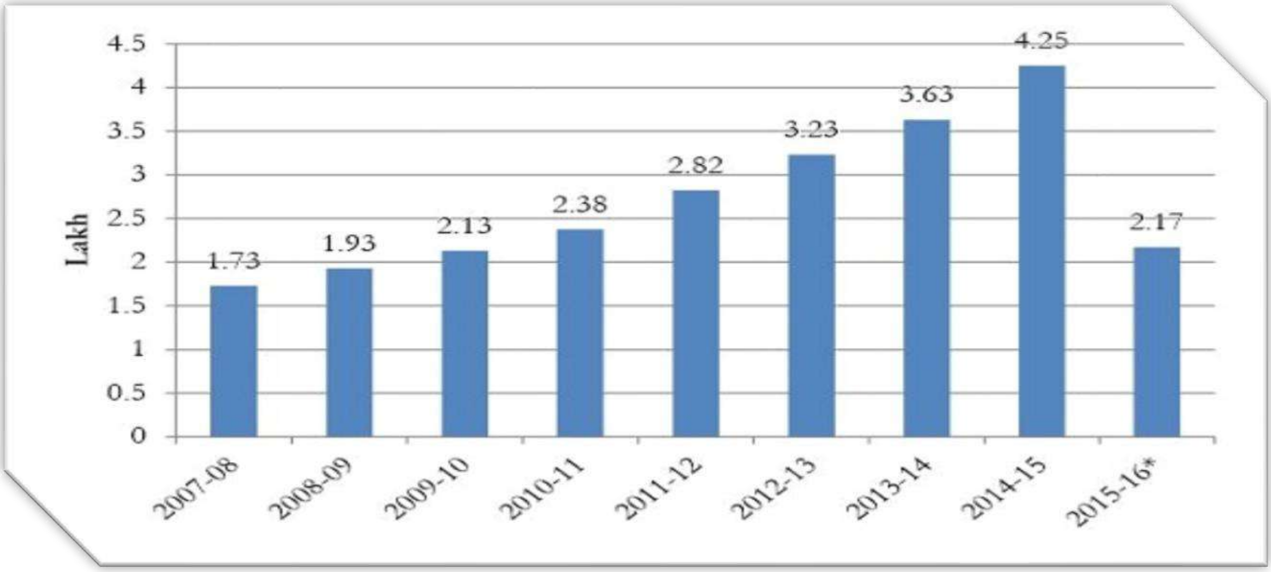
8. 2014: Make in India campaign: The Make in India campaign was launched to promote manufacturing in India and provide a conducive environment for investors and entrepreneurs, including those in the MSME sector.

9. 2016: Start-Up India Initiative: The Start-Up India Initiative was launched to promote entrepreneurship and create a favorable environment for start-ups by providing various incentives such as tax exemptions, funding support, and simplified regulatory compliance.

10. 2018: National Policy on MSMEs: The Indian government formulated the National Policy on MSMEs, which aims to provide a supportive environment for the growth of MSMEs by addressing various issues such as access to finance, technology upgradation, and market access.

11. 2020: Atmanirbhar Bharat Abhiyan: The Atmanirbhar Bharat Abhiyan was launched to promote self-reliance and local manufacturing, expected to benefit MSMEs by providing them with a larger market and reducing their dependence on imports.

In summary, the MSME policy has evolved over the years, with the government introducing various measures to support the growth of the sector, such as tax exemptions, subsidies, and credit facilities, as well as initiatives to promote entrepreneurship, access to finance, technology upgradation, and market access.

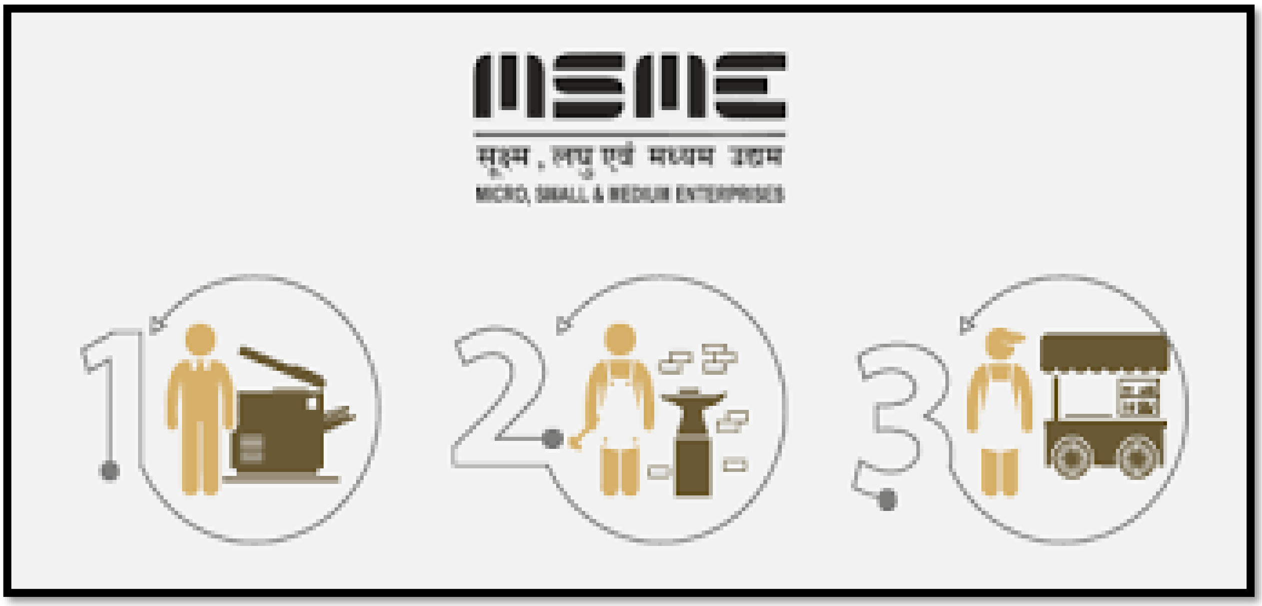


History of Growth and Expansion of MSMEs

MSMEs were initially known as small scale industries (SSI). Conceptually a lot has changed in the industry from what it was prior to independence. In 1938, these industries were recognised to observe the challenges faced by the small industries by then Prime Minister Jawahar Lal Nehru. The SSI was defined as the small scale or cottage industries which were run by a workman skilled in the craft who creates, markets the goods by himself or with the help of family members with his own tools and no power-driven machines, only to be sold in the neighbourhood market.

As per the Ministry of Commerce and Industry, in 1955, the Government of India made it clear that an enterprise working without power can have 50-100 employees to get the work done. It also mentioned that the capital investment in such businesses should be not more than INR 5 lakhs for them to be considered under the SSI category.

In 1960, the above categorisation was amended by keeping the investment amount as is and removing the filter of the number of employees. In 1962, the investment figure was increased to INR 10 lakhs. The restructuring of the investment amount happened in 1966, revising it up to INR 7.5 lakhs irrespective of the number of employees.



With the increase in the prices of equipment, the investments were reframed in 1974 with the addition.

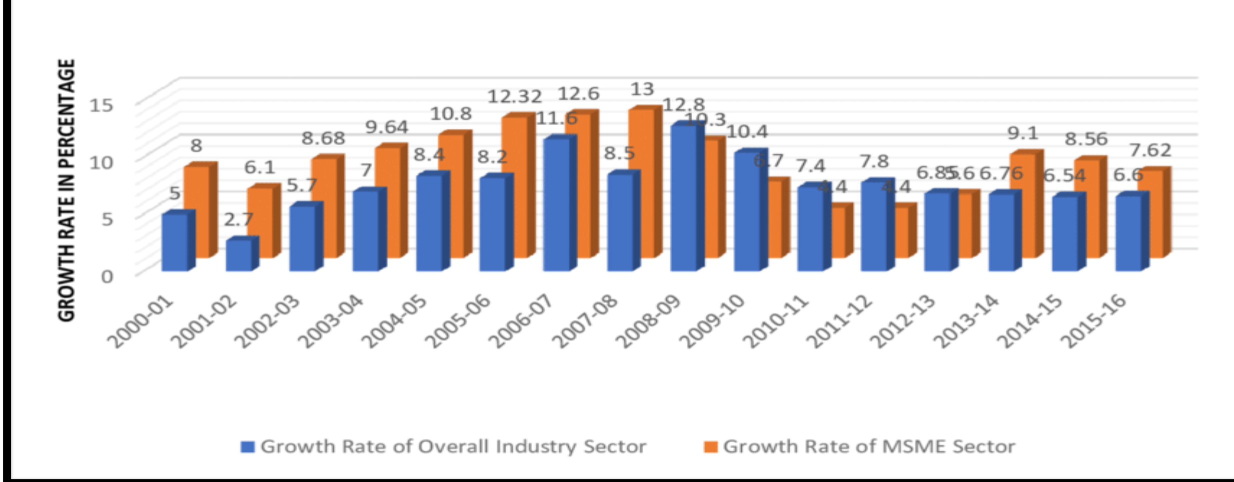


Chart 1 - Comparision of MSME sector vis-a-vis Overall Industry

of another small industrial unit called ancillary units. The categorisation of investment was based on SSI and ancillary units at INR 10 lakhs and INR 15 lakhs respectively. In 1980, the investments were raised from INR 10 lakhs to INR 20 lakhs for SSI and from INR 15 lakhs to INR 25 lakhs for ancillary units. These rates were revised again in 1985, raised to INR 25 lakhs and INR 45 lakhs for SSI and ancillary units respectively.

In 1991, the Indian economy faced major changes in its policies known as Liberalisation, Privatisation and Globalisation, focused on the development of the Indian economy. This resulted in the increase in investment ceiling for SSI to INR 60 lakhs and for ancillary units to INR 75 lakhs. In 1997, the reforms made the investment for both SSI and ancillary units equal at INR 3 crores, which remained unchanged up to the year 2006.

With various other amendments in the number of employees, investment, turnover, technology in the past years the Small Scale Industries were finally named Micro Small and Medium Enterprises (MSME) in the year 2007, and the Ministry of Rural and Agro Industries and the Ministry of Small Scale Industries were combined under the Government of India (allocation of business) Rules 1961 by the President of India.

RATIONALE

ROLE OF MSME IN INDIAN ECONOMY

The Indian economy is sustained by MSME. This sector has demonstrated its crucial role in the development of the country, the leveraging of exports, and the enormous employment opportunities for the unskilled, recent graduates, and the underemployed. Also, it increased banks' options for providing more credit to businesses in the MSME sector. In order to ensure the longevity of this industry, the government should take great effort to address the relevance of MSME Registration by implementing better regulations and enabling financial institutions to offer more credit at lower interest rates.

Through business innovations, the Micro, Small, and Medium Businesses (MSMEs) have made a substantial contribution to the growth of entrepreneurial endeavors'. The MSMEs are expanding their sphere of influence across economic sectors and generating a wide range of goods and services to satisfy domestic and international markets. The MSMEs in India are playing a crucial role by, among other things, industrializing rural and backward areas, reducing regional imbalances, and ensuring a more equitable distribution of national income and wealth. They also provide significant employment opportunities at comparatively lower capital costs than large industries.

OBJECTIVES

1) To generate large scale employment In India
2) To sustain economic growth and increase exports.
3) Making Growth Inclusive
4) Economic stability in terms of Growth and leverage Exports
5) Cheap Labour and minimum overhead
6) Simple Management Structure for Enterprises
7) To play a main role in contributing the mission of “Make in India”.

Methodology

Secondary data:

Secondary data is the data that has already been collected through primary sources and made readily available for researchers to use for their own research. It is a type of data that has already been collected in the past. Secondary research includes textbooks, news articles, review articles, and websites.

Finding data:

We have carefully reviewed numerous websites, collected data, and then carefully analyses and added that data to the material above. We visited several blogs, which

Proved to be quite useful for our investigation. SEARCHING DATA Educational INSTITUTIONS HAVE PUBLISHED

We have reviewed a number of the case studies available on the college's offered e-library websites, including Sage Cases and nimbus.

RESEARCHING DATA ARCHIVES FROM DIFFERENT AGENCIES

Numerous governmental organizations maintain collections of their own research. These government websites present accurate info. Thus, we went to the official government website of MSME to get relevant information.

CRITICAL ANLAYSIS OF MSME POLICY

Various stakeholders have been advocating a MSME Policy for India. The sweep of the sector is so wide, so varied and so differentiated that a single size „fit all" will not work. The sheer numbers are staggering. But, they may be recorded to understand the magnitude of the task. As per the fourth Census of MSMEs the Report for which was published in 2012, the total number of MSMEs in India are 3.6 crores employing over 8 crore people. It is the second largest employer after agriculture. It also accounts for 45 % of total industrial production, 40% of total exports and contributes very significantly to the GDP. Manufacturing segment within the MSME contributes to 7.09% of GDP. MSMEs also contribute to 30.50% of services.

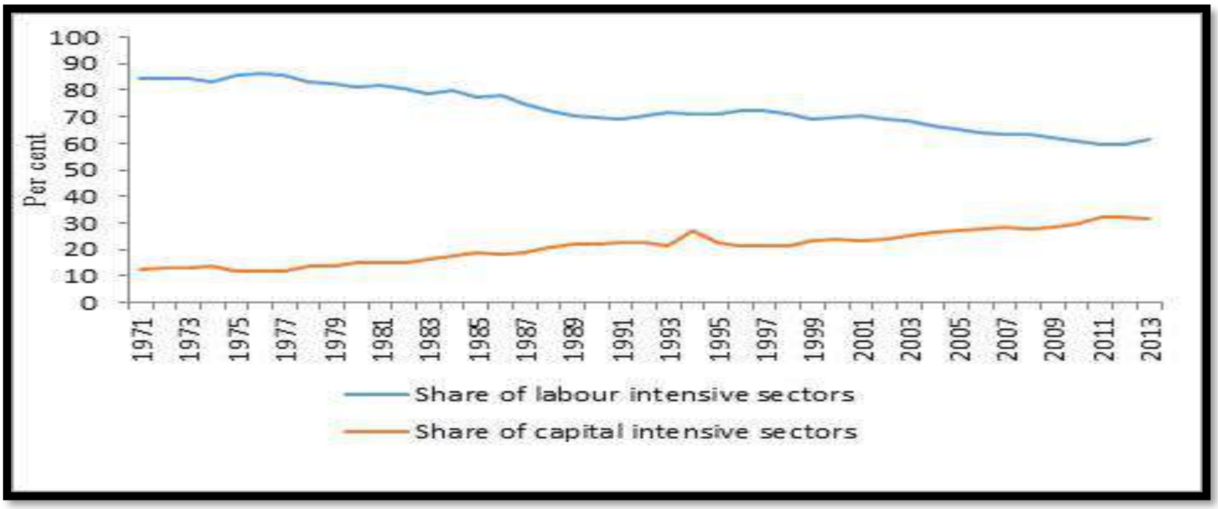
The total contribution of MSMEs to the GDP is 37.54%. The MSMEs of India would be the cradle for the "Make in India" vision. This would be the nursery where small existing businesses have the potential to become world beaters tomorrow. The larger players amongst the MSME space also are in a unique position to become global players attracting partners with technology and funds. The Policy framework must encourage this. It will also help creating employment on a massive scale.

Any MSME Policy for India should take into account the various Ministries such as Ministry of Commerce and Industry, Ministry of Textiles, Department of Electronics and Information Technology, Ministry of Food Processing Industries, Ministry of Heavy Industries and Public Enterprises, Department of Pharmaceuticals etc., and the Regulatory Ministries such as Ministry of Corporate Affairs and Ministry of Finance.

One major challenge faced by the MSME sector in India is the lack of access to formal credit. Despite the government's efforts to increase credit availability, such as the implementation of the Pradhan Mantri MUDRA Yojana, small businesses still struggle to access finance from formal channels. This is partly due to the lack of collateral and credit history, which limits their creditworthiness (Saxena & Jaiswal, 2019).

Structural change within manufacturing MSMEs:

As per the data provided by the 4th Census of MSMEs, almost 86% of the manufacturing MSMEs operating in the country are unregistered. The output data for unregistered manufacturing from the National Account Statistics (NAS) reveals a notable trend in terms of change in output composition of the unregistered manufacturing MSMEs in recent years: the share of sectors with above-average capital intensity in the total output of unregistered manufacturing has steadily risen from 23% in 1991 to close to 33% in 2013, with a commensurate fall in the share of more labor-intensive sectors (Figure 1). The same trend emerges if we look at the relative share of sectors as per the use-based classification: the share of capital goods has steadily increased from 12% in 1971 to 25% in 2013.



Grievance Monitoring

The Ministry attends to all the grievances on Centralized Public Grievance Redress and Monitoring System (CPGRAMS) and the number of the pending grievance on CPGRAMS as on 31.12.2021 was 152. The Ministry has started an MSME internet grievance monitoring system (E-SAMADHAN) to track and monitor other grievances and suggestions received in the Ministry.

From the date of launch of **MSME Ramadhan** portal, i.e. 30.10.2017, MSEs have filed 1,00,152 applications involve an amount of Rs. 26,200.58 crore. In 9735 cases mutual settlements have been done amounting to Rs. 1,401 crore, 29,242 applications are under consideration by MSEFC involving an amount of Rs. 6,640.61 crore and 26,869 applications have been converted in to cases involving an amount of Rs. 9,799.12 crore and 12091 cases have been disposed by MSEFCs involving an amount of Rs. 3,522.53 crore by 10.01.2022.

- MSME Samadhaan
- MSME Sambandh
- MSME Sampark

Champions Portal:

CHAMPIONS portal launched by Hon'ble Prime Minister on 1st June 2020, is an ICT based technology system for making the smaller units big by helping and handholding them. The portal is not only helping MSMEs in the present situation, but also providing guidance to grab the new business opportunities.

Capital Intensity And Capital Productivity Of Manufacturing MSMEs

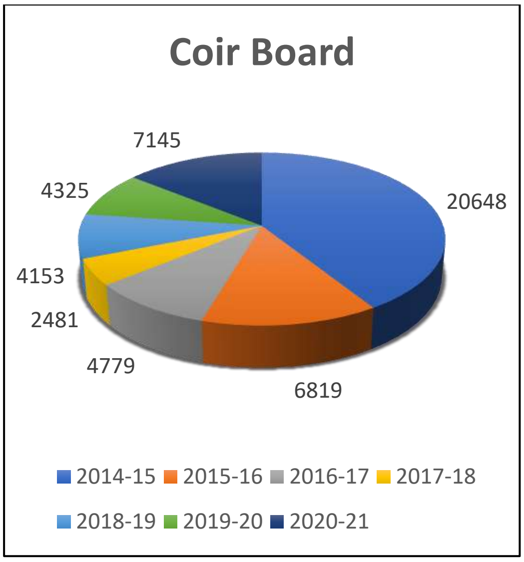
On comparing the capital intensity (capital-to-labour ratio) of registered manufacturing from ASI (Annual Survey of Industries) data with that of unregistered manufacturing obtained from NSS, it is seen that in recent years, the registered segment is almost 12 times more capital intensive than unregistered "establishments". Clearly, capital intensity and firm size exhibit a positive relation which reinstates the importance of the MSME sector in job creation.

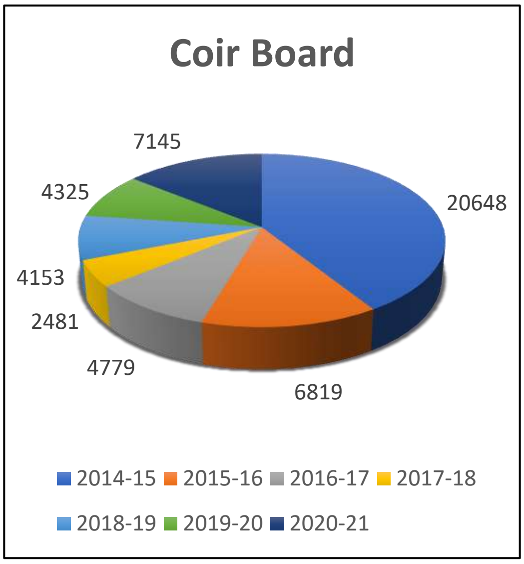
Moreover, declining trend in capital productivity coupled with rising capital intensity in most of these sectors. This indicates that probably, the rise in capital intensity has not been technology-induced productivity-augmenting; rather it replaces labour in most of these sectors. In fact, both capital and labour productivity were found to be very low in manufacturing MSMEs as compared to bigger firms. The labour productivity index for OAEs was found to be close to zero when compared with the registered sector (=100) for the year 2011.

Industries	Growth in capital intensity (%, 2006-2011)	Growth in capital productivity (%, 2006-2011)
Manufacture of food products and beverages	74.95	-10.40
Manufacture of chemicals and chemical products	223.39	-6.80
Manufacture of leather and related products	237.42	-6.70
Manufacture of wearing apparel	133.56	-3.80
Manufacture of textiles	75.20	-6.60
Manufacture of other non-metallic mineral products	269.60	-15.40
Manufacture of wood and products of wood and cork, except furniture; straw, etc.	170.69	-8.40
Manufacture of tobacco products	355.54	-10.20

Progress Of Skill Development Programmers

Organizations under the ministry are providing skill training to the youths for wage employment and self-employment. They also provide skill up-gradation trainings to existing entrepreneurs and working force to enhance their performances. These training are provided under various schemes such as MSME-TCs, Assistance to Training Institutions (ATI), National SC/ST Hub, Capacity Building, Coir Vikas Yojana- Skill Upgradation & Mahila Coir Yojana, etc. Furthermore, customized demand-driven training courses as per industry requirements are also conducted by organizations under the Ministry. The progress of skill development programmers conducted by the M/o MSME since 2014-15 to 2020-21.





- Total number of 1,94,689 persons have been trained up to 31.12.2021 in the year 2021-2022

Based on analysis of MSME data from various sources for the latest years available in each source, I find that the structure of manufacturing MSMEs has changed significantly in the last decade. Not only has the share of capital-intensive industries within the output composition of manufacturing MSMEs increased, but labor productivity also remains very low with possible replacement of labor with capital within manufacturing MSMEs. This is often not given due importance in policy formulation.

Overall, the effectiveness of the MSME policy in India is limited by the challenges faced by small businesses, including the lack of access to formal credit, infrastructure, and the impact of new policies such as the GST. A comprehensive approach that addresses these challenges is necessary to ensure the policy's impact is significant and sustainable.

CHALLENGES AND ROAD MAP

1) **Financial issues**: In the Indian economy, access to finance has always been an issue for smaller firms and businesses. This is a major hindrance for businesses as well as the MSME sector. However, the most disturbing fact about it is that only 16% of SMEs get access to timely finance, resulting in small and medium firms being forced to rely on their own resources. It is not just small firms that face this problem, but larger firms do as well because even those bigger players face significant difficulties in accessing cheaper credit from formal banks.

2) **Regulatory issues**: Several regulatory issues have been identified over time, including problems like tax compliance and changes to labour laws which have ended up costing the MSME sector dearly. To make this sector more competitive among others, certain labour reforms were attempted some years back. Still, they failed to make any dent in improving things for MSMEs despite making them more competitive than larger firms. As a result, it has become very difficult for MSMEs to comply with these regulations and register for tax compliance, which has resulted in many operating on low capital or even shutting shops.

3) **Infrastructure**: In India, the infrastructure sector is extremely important because we are often referred to as the 'world's back-office because so many works in this sector are carried out overseas. Applications such as eCommerce and BPO have created more jobs in low-wage countries like India.

4**) Low productivity**: MSMEs are not necessarily very productive, but they perform certain tasks that emit more value than they produce. Retailers sell consumer goods to end-users at relatively lower prices. In fact, MSMEs may be very productive only when it comes to being cost-efficient and can create high volume at very low costs. But given that their production is on a small scale with low margins, low productivity can put them at a disadvantage, especially when compared with larger firms.

5) **Lack of innovation**: Indian MSMEs are not very innovative, and many of the products that they produce are based on outdated technologies. There is a severe lack of entrepreneurs in this sector, which has prevented it from adopting new technologies and tools which have brought about significant changes in other sectors like eCommerce and call centres, etc. As a result, MSMEs have had to struggle with outdated technology as well as low levels of productivity, especially when compared with larger firms.

6) **Technical changes**: There has been no dearth of technical changes over time, and most industries have undergone some form of change to remain competitive. As a result, Indian MSMEs have had to deal with some very important changes which have affected their growth potential. At first, there was a change in the ownership right of land, which has made the sector more prone to mismanagement and, with it, a fall in productivity.

7) **Competition**: Due to various factors, such as the rise of eCommerce and the advent of globalization, bigger firms have forced MSMEs out of their markets. However, this is not new because MSMEs were facing competition from year one, but they could fight it off successfully compared to professional firms. In fact, MSMEs continue to face competition in many areas, including agricultural machinery, garments, and tourism.

8) **Lack of skilled manpower**: Although India is having a big pool of human resources, the industry still faces a deficit in manpower with the skills set required for manufacturing, marketing, etc. A set of skilled personnel will save time and effort as they use their expertise and talent, and knowledge in their respective fields.

9) **Lack of professionalism:** A majority of Indian MSMEs lack professionalism despite being vital for larger industries' growth. As a result, they are highly prone to corruption and abuse of power, which has a huge impact on the productivity of their businesses.

10) **Lack of standardized policies**: There are very few MSME policies in India. As a result, there is no consistency when it comes to MSME development as well as entrepreneurship promotion programs. However, positive progress has been made in Delhi over the years, but this needs to be done on a national level so that Indian firms can become more competitive across the world for global companies and investors.

11)**Technological backwardness:** This is one of the biggest constraints faced by MSMEs till date. The MSME in India lacks up to date information and are often unaware of the latest technological developments in the global market. Sometimes they lack managerial skills, knowledge, and technology-intensive education to run a competent MSME. This challenge is most prevalent in rural parts of India. It is believed that technology can play a pivotal role for MSMEs because of the competition it faces from neighbouring countries. Therefore, MSMEs must investigate this matter very seriously. Technological up-gradation is a must if Indian MSMEs are to become competitive lest it makes them obsolete, and their existence is put under threat.

12) **High cost of credit:** Another challenge that haunts this sector is their inability to access adequate and timely credit at a reasonable cost. Quite a few researchers have indicated that MSME in India are hindered by poor credit availability. Now, if we look to understand the reason behind this, we know that there is a high-risk perception among the banks regarding this sector, and the transaction costs are also high for loan appraisal. The players of MSME are not in a great position to provide collateral to get loans from banks.

13) **Procurement of raw materials:** The availability of economic resources is critical for any business development. It has been one of the growing concerns of this sector as procurement of raw materials is done within local territory due to their financial limitations.

14) **Inadequate infrastructure facilities:** Having good infrastructure facilities is essential to the growth of a business, and lack of infrastructure facilities such as electricity infrastructures negatively affect the productivity and the profitability of manufacturing SMEs. The availability of infrastructure and skilled manpower will ensure the competitiveness of MSMEs. MSMEs are either located in industrial estates or are operational in urban areas or have come up in an unorganized manner in rural areas of the country. The infrastructure facilities in such areas are poor and not reliable.

Solution

Solutions to 5 challenges faced by MSME sector while availing Loans.

1. **Lack of a good business plan**

Many small business owners do not know how to present a convincing project plan that will attract lenders. Financial institutions need to see the plan to assess how well your business will perform and your ability to repay the loan.

Hence, you need to present a detailed plan that projects expenses as well as the ways to mitigate risks in case of any unforeseen event. So, try and develop a target-based plan that maps your organization's growth chart and future opportunities, considering the current market landscape. Seek help from a project planner, if need be, who can chart a plan that is transparent and logical enough for lenders.

2. **Inefficient management of cash flow**

Most small business owners struggle to manage their receivables and payables. And this poor cash flow management can not only make it difficult for you to stay afloat, but also diminish your credit worthiness in the eyes of lenders. They might charge you a higher than usual interest rate.
So, monitor your cash flow regularly, cut costs wherever possible and sell assets that you do not need for quick funds. Sell dated utilities (like fax or Xerox machines if you mostly communicate online) and try to negotiate your lease terms. If your employees mostly use mobile phones, cut down on landlines. Send invoices on time and follow up for payments closely. Use mobile payment apps to receive funds faster. You can also ask for partial payments in advance for large orders.

3. **Long processing time**

Despite measures taken by the RBI to ensure that the funding for MSME sector is encouraged, many traditional institutions still have a conventional approach that involves a lot of paperwork, making the approval process lengthy and cumbersome. During this period, you might lose some golden opportunities, merely due to lack of funds.
So, seek funding from financial institutions that typically require less documentation, have an online application system in place, and approve **instant loan** quickly. In case of secured loans, lenders usually need more time to assess its value before sanctioning the loan amount.

4. **Lack of security or collateral**

Small business owners usually do not have any valuable asset to offer as collateral to traditional institutions, which makes it difficult to secure a loan. Also, conventional lending institutions are often unwilling to lend funds to startups, if they have already availed funding from other sources.
In such cases, you can seek collateral-free loans from modern financial institutions. However, make sure you have a decent credit score, low debt to income ratio, and a detailed financial plan to avoid refusal. In absence of collateral, the lender will check your credit history to make sure you can repay the loan. If you opt for machinery loan, the machines themselves will be considered as collateral.

5. **Unaffordable interest rates**

Loans offered by traditional financial institutions usually come with high interest rates and additional charges, especially if you are a new business or lack collateral. Also, managing the monthly instalments can cause a lot of stress.
So, small and medium business owners should compare multiple lenders, especially the modern ones, to zero in on the interest rate and tenure that are best suitable for them. As a thumb rule, if you choose a long tenure, your interest rate and EMI will be low. However, your long-term interest cost will be high. Another way to negotiate on interest rates is to maintain a good credit score. Ask for a loan amount that you actually need, as high loan amounts will attract high interest rates.

Over view of CREDIT POLICY

Credit policy is a set of guidelines and procedures that govern how a company extends credit to its customers. The policy outlines the terms and conditions of credit, such as the credit limit, repayment terms, and interest rates. It also establishes the criteria for approving credit applications and managing credit risk. The following is an overview of credit policy:

Credit Application and Approval Process: Credit policy starts with a credit application that customers must complete to request credit. The policy establishes the criteria for approving credit applications, such as creditworthiness, payment history, and financial stability. The policy may also specify the maximum credit limit that a customer can receive and the interest rate charged.

Credit Terms and Conditions: Once a customer's credit application is approved, the credit policy outlines the terms and conditions of credit. This includes the repayment terms, such as the payment due date and any late payment fees. The policy may also specify the interest rate charged and any other fees associated with the credit.

Credit Monitoring and Collection: Credit policy also includes monitoring customer credit activity to ensure that they are complying with the terms and conditions of credit. This includes monitoring payment history, credit utilization, and any delinquencies. The policy also outlines the collection process for overdue payments, which may include collection agencies, legal action, or other remedies.

Credit Risk Management: Credit policy also includes strategies for managing credit risk. This includes setting credit limits based on the customer's creditworthiness, monitoring credit activity to identify potential risks, and implementing credit controls to mitigate risks. The policy may also establish guidelines for managing bad debts and write-offs.

In summary, credit policy is a set of guidelines and procedures that govern how a company extends credit to its customers. The policy establishes the criteria for approving credit applications, outlines the terms and conditions of credit, monitors credit activity, and manages credit risk. By establishing clear credit policies and procedures, companies can minimize credit risk and ensure that customers are able to repay their debts in a timely manner.

Objectives of the Study:

1) To examine the lending pattern of private sector banks, public sector banks NBFC's, RRB's, EXIM and NABARD.
2) To examine how financial institutions provide access to credit while balancing out the probability of defaults/NPA's.

Introduction:

Credit Policy: "A credit policy contains guidelines that structure the amount of credit granted to customers, as well as how collections are to be conducted for delinquent accounts. The policy is an essential element of the finances of a business, since it impacts the amount of working capital required to support accounts receivable, and also influences the amount of bad debt losses."

Credit policy can be categorized as a subset of monetary policy. Most individuals have a misconception that a country has its own uniform credit policy. In order to gauge a country's friendliness towards business, it is important to study the various lending patterns of various financial institutions of the country. This report will study the lending pattern of NBFC's, RRB's, EXIM and NABARD.

India's strong economic growth in the first quarter of FY 2022-23 helped India surpass the UK as the fifth largest economy while recovering from repeated waves of Covid-19. Real GDP in the first quarter of 2022–23 is currently about 4% higher than its corresponding 2019-20, indicating a strong start for India's recovery from the pandemic. Given the release of pent-up demand and the widespread vaccination coverage, the contact-intensive services sector will probably be the main driver of development in 2022–2023. Rising employment and substantially increasing private consumption, supported by rising consumer sentiment, will support GDP growth in the coming months.

In the medium run, increased capital spending on infrastructure and asset-building projects is set to increase growth multipliers, and with the revival in monsoon and the Kharif sowing, agriculture is also picking up momentum. The contact-based services sector has largely demonstrated promise to boost growth by unleashing the pent-up demand over the period of April-September 2022. The sector's success is being captured by several HFIs (High-Frequency Indicators) that are performing well, indicating the beginnings of a comeback.

India has emerged as the fastest-growing major economy in the world and is expected to be one of the top three economic powers in the world over the next 10-15 years, backed by its robust democracy and strong partnerships. It would be ignorant to not address the fact that a lot of this growth and prosperity comes on the back of access to credit. This report attempts to give the reader insight into how examining the credit policies of various financial institutions directly impact the growth of a country's economy.

Literature Review

Kumar, M., Batra, N., & Delisting, F. (2016). Determinants of priority sector lending: Evidence from bank lending patterns in India. *The International Journal of Business and Finance Research*, *10*, 20. The study has several implications for policymakers and banks. First, the findings suggest that public sector banks have an important role to play in promoting priority sector lending in India. Second, the study highlights the importance of bank size, credit growth, and NPA levels in determining priority sector lending. Banks need to carefully balance their lending priorities with their overall risk profile. Third, the study suggests that bank ownership structure, capital, and profitability are important determinants of priority sector lending. Banks with more resources are better placed to lend to the priority sector. Altaf, N., Shah, F. A., Altaf, N., & Shah, F. A. (2021). Financing pattern of indian msmes. *Capital Structure Dynamics in Indian MSMEs*, 19-34.
The study found that bank loans were the primary source of external financing for MSMEs in India, followed by equity and trade credit. This suggests that MSMEs in India heavily rely on bank loans to finance their operations, which is consistent with the general pattern of financing for small and medium enterprises in developing countries.

Altaf, N., Shah, F. A., Altaf, N., & Shah, F. A. (2021). Financing pattern of indian msmes. *Capital Structure Dynamics in Indian MSMEs*, 19-34.
The study found that bank loans were the primary source of external financing for MSMEs in India, followed by equity and trade credit. This suggests that MSMEs in India heavily rely on bank loans to finance their operations, which is consistent with the general pattern of financing for small and medium enterprises in developing countries.

Rao, K. M. (2008). MFIs in India: An overview. *Microfinance in India*, 57-66.
The author notes that the growth of the microfinance sector in India has been remarkable over the past few decades. The study highlights the role of MFIs in providing financial services to the poor and underserved sections of society. The author notes that microfinance institutions in India have provided small loans to millions of low-income individuals and have contributed to poverty reduction.

Rajan, R., & Dhal, S. C. (2003). Non-performing loans and terms of credit of public sector banks in India: An empirical assessment. *Reserve Bank of India Occasional Papers*, *24*(3), 81-121.
The study finds that credit risk is the most significant factor contributing to NPLs, followed by interest rates and loan recovery mechanisms. The authors suggest several policy recommendations to address the issue, including strengthening the credit appraisal and monitoring systems of banks, improving loan recovery mechanisms, and enhancing the legal and institutional frameworks.

Sharma, D. N. (2012). Lending to priority sector in India: a study of public and private banks. *Paradigm*, *16*(1), 11-17.
The study examines the factors that affect priority sector lending, including profitability, capital adequacy, and risk management. The study finds that profitability is the most significant factor influencing the lending practices of both public and private sector banks. The study recommends that the government and the

RBI should continue to monitor and enforce priority sector lending targets to ensure that banks meet their lending obligations towards the priority sector.

Kesavan, Y. (2015). A Study On Financial Facilities Provided To Exporters By Exim Bank With Specific Reference To India. *Asia Pacific Journal Of Research*.
The study highlights that the Exim Bank of India plays a critical role in facilitating exports by providing various financial facilities, such as pre-shipment credit, post-shipment credit, and buyer's credit. The author notes that the Exim Bank's financial facilities have helped to increase India's exports, particularly in the small and medium enterprises (SMEs) sector.

The study also examines the factors that influence the borrowing decisions of exporters, such as the interest rates, collateral requirements, and repayment terms. The study finds that the interest rates offered by Exim Bank are competitive compared to other financial institutions in India, and the collateral requirements are also reasonable. The study recommends that the Exim Bank should provide more flexible repayment terms to exporters to reduce their financial burden.

Bose, S. (2005). Regional rural banks: the past and the present debate. *Macro Scan*, 1-15.
The study highlights the historical background of RRBs in India, which were established in the late 1970s to provide banking services to rural areas. The author notes that RRBs have played a crucial role in expanding access to financial services in rural areas and promoting rural development. However, the study also points out several challenges that RRBs have faced over the years, such as governance issues, financial viability, and competition from other financial institutions.

Soni, A. K., & Kapre, A. (2012). Performance Evaluation of the Regional Rural Banks in India. *National Monthly Refereed Journal of Research In*, *1*(2), 132-144.iiii
The study found that the RRBs have shown improvement in their performance over the years. The authors found that RRBs had a higher proportion of priority sector lending, which is mandated by the Reserve Bank of India, compared to other banks. The study also noted that RRBs had lower non-performing assets (NPAs) compared to other banks in India.

The authors used several non-financial indicators to evaluate the performance of RRBs, such as outreach, product innovation, and technology adoption. The study found that RRBs had made significant progress in improving their outreach to rural areas, introducing innovative financial products, and adopting new technologies to improve their operations.

Research Methodology:

This research report has collected data primarily from secondary sources. Secondary source of data refers to data collected from existing sources of data such as other research papers. The research study uses secondary data obtained from various sources such as the Reserve Bank of India (RBI) database, annual reports of financial institutions, and research papers published on the lending patterns of Indian financial institutions.

The data collected for the study spans over the period of twenty years. The study employs descriptive statistics and graphical representation to analyze the data.

Lending pattern of SBI (largest public sector bank of India):

State Bank of India (SBI) is the largest bank in India and one of the largest lenders in the country. Over the past 20 years, SBI has been an important player in the Indian banking sector and has witnessed significant changes in the regulatory and economic environment.

Here are some general trends that may be observed in SBI's lending patterns over the past 20 years:

1. Increasing loan portfolio: SBI has consistently increased its loan portfolio over the years. According to the bank's annual reports, its advances portfolio grew from Rs. 4.7 trillion in 2001 to Rs. 24.7 trillion in 2021.

2. Shift in loan mix: SBI's loan mix has also undergone significant changes over the years. The bank has reduced its exposure to certain sectors like infrastructure and increased its focus on retail and agriculture lending.

3. Reduction in non-performing assets (NPAs): SBI has made significant efforts to reduce its NPAs over the years. The bank's gross NPA ratio has declined from 4.19% in March 2018 to 4.98% in March 2021.

4. Increase in digital lending: SBI has also increased its focus on digital lending in recent years. The bank has launched various online loan products and has also tied up with various fintech companies to offer digital lending services.

Critical Analysis:

It's difficult to say whether the State Bank of India (SBI) has a "favorable" credit policy in an absolute sense, as credit policies can be evaluated based on different criteria and can vary depending on the specific circumstances. However, SBI is one of the largest public sector banks in India and has a wide range of credit products and services available to its customers.

SBI credit policy is designed to provide financial assistance to various sectors of the economy and to individuals, corporations, and institutions. It provides various types of loans such as home loans, personal loans, auto loans, education loans, agricultural loans, and many more. SBI also provides various types of credit cards and offers various types of advances to its customers.

SBI's credit policy focuses on providing financial assistance to priority sectors such as agriculture, small-scale industries, and exports, as per the guidelines of Reserve Bank of India (RBI) and Government of India. It also has a wide range of credit products and services available to its customers, including home loans, personal loans, auto loans, education loans, agricultural loans, and more.

SBI also has a Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGSME) which aims to make available collateral-free credit to the micro and small enterprise sector. This scheme helps to increase the flow of credit to the micro and small enterprises by mitigating the risk of default on the part of these enterprises.

Overall, SBI's credit policy is generally considered to be supportive of economic growth and development, as it provides a wide range of credit products and services to various sectors of the economy and individuals and focuses on priority sectors of the economy.

It also has various guidelines and norms laid out by the Reserve Bank of India (RBI) which it follows. It is also subject to supervisory inspections by the RBI and regulatory compliance, which helps to ensure that its credit policy is sound and promotes financial stability.

Lending pattern of HDFC Bank (Largest private sector bank in India):

HDFC Bank is one of the leading private sector banks in India, and it offers a wide range of loans to customers across various sectors. Here are some general trends that may be observed in HDFC Bank's lending patterns:

1. Retail lending: HDFC Bank is primarily focused on retail lending, which includes home loans, auto loans, personal loans, and credit cards. According to the bank's annual reports, retail loans constitute much of its loan portfolio.
2. Mortgage loans: Home loans are one of the major products offered by HDFC Bank, and the bank has been a major player in the Indian housing finance market for many years. The bank offers various types of home loans to cater to the needs of different segments of customers.
3. SME lending: HDFC Bank also offers loans to small and medium enterprises (SMEs). The bank offers various loan products such as working capital loans, term loans, and other financing solutions to SMEs.
4. Digital lending: HDFC Bank has been investing in digital technology to offer lending services to customers. The bank has launched various online loan products, such as instant personal loans, pre-approved loans, and loans against securities, to cater to the needs of customers who prefer digital channels.
5. Responsible lending: HDFC Bank is committed to responsible lending practices and has implemented various measures to mitigate credit risk. The bank has a robust credit appraisal process, which includes credit scoring, risk-based pricing, and collateral evaluation. The bank also closely monitors its loan portfolio to identify and mitigate credit risks.

Critical Analysis:

It is difficult to say whether HDFC Bank has a "favorable" credit policy in an absolute sense, as credit policies can be evaluated based on different criteria and can vary depending on the specific circumstances. However, HDFC Bank is one of the largest private sector banks in India and has a wide range of credit products and services available to its customers.

HDFC Bank's credit policy is designed to provide financial assistance to various sectors of the economy and to individuals, corporate, and institutions. It provides various types of loans such as home loans, personal loans, auto loans, education loans, and many more. HDFC Bank also provides various types of credit cards and also offers various types of advances to its customers.

HDFC Bank's credit policy focuses on providing financial assistance to priority sectors such as agriculture, small-scale industries, and exports. It also has a wide range of credit products and services available to its customers, including home loans, personal loans, auto loans, education loans, agricultural loans, and more.

HDFC Bank also has a scheme for micro and small enterprises (MSEs) to provide collateral-free credit to the sector. This scheme helps to increase the flow of credit to the micro and small enterprises by mitigating the risk of default on the part of these enterprises.

Overall, HDFC Bank's credit policy is generally considered to be supportive of economic growth and development, as it provides a wide range of credit products and services to various sectors of the economy and individuals. It also follows the guidelines and norms laid out by the Reserve Bank of India (RBI) and it is also subject to supervisory inspections by the RBI and regulatory compliance which helps to ensure that its credit policy is sound and promotes financial stability

Lending pattern of EXIM Bank:

The Export-Import Bank of India, also known as EXIM Bank, is a specialized financial institution that offers various lending and financial services to promote and support India's international trade. Here are some general trends that may be observed in EXIM Bank's lending patterns:

1. Export financing: EXIM Bank provides export credit to Indian exporters in various forms, including pre-shipment credit, post-shipment credit, buyer's credit, and supplier's credit. The bank also offers working capital finance and project finance to support export-oriented industries.

2. Lines of credit: EXIM Bank offers lines of credit to foreign governments, banks, and other entities to support Indian exports. These lines of credit are provided on concessional terms to enable the recipient country to import goods and services from India.

3. Overseas investment: EXIM Bank offers financial assistance to Indian companies for their overseas investment projects. The bank provides various financing solutions, such as overseas investment finance, project finance, and buyers' credit, to support Indian companies in their overseas ventures.

4. Small and medium enterprises (SMEs): EXIM Bank offers various financial services to SMEs to support their international trade. The bank provides export credit, working capital finance,

project finance, and other financial solutions to SMEs.

5. Social sector lending: EXIM Bank has also been involved in providing financial assistance for social sector projects in various countries. The bank provides lines of credit and project finance to support projects in sectors such as healthcare, education, and renewable energy.

Critical Analysis:

EXIM Bank's primary focus is on supporting India's international trade. While this is an important role, it limits the bank's ability to contribute to the development of the domestic market. EXIM Bank could consider expanding its operations to support domestic industries and sectors that have the potential for growth and development.

As a specialized bank, EXIM Bank has a relatively small client base. This concentration of credit risk could potentially lead to increased credit risk if a few large borrowers are unable to repay their loans. EXIM Bank could consider diversifying its loan portfolio to reduce credit risk. Its lending policies are heavily dependent on external factors such as global trade conditions, economic policies of other countries, and foreign exchange fluctuations. Any adverse changes in these factors could impact the bank's lending operations and profitability.

EXIM Bank's lending policies are primarily focused on export-oriented sectors. While this is understandable given the bank's mandate, it could limit the bank's ability to support other sectors that have the potential for growth and development. There is also limited publicly available information on the lending policies and practices of EXIM Bank. This lack of transparency could potentially hinder the bank's ability to attract investors and borrowers.

In conclusion, while EXIM Bank has played a significant role in supporting India's international trade, there are some areas where the bank's lending policies could be improved. To mitigate concentration of credit risk it could consider diversifying its loan portfolio. Also, the bank could consider expanding its operations to support domestic industries and sectors, which would help reduce its dependence on external factors. Finally, improving transparency in its lending policies and practices would be beneficial for the bank in terms of attracting investors and borrowers.

एक्ज़िम बैंक
EXIM BANK
भारतीय निर्यात–आयात बैंक
EXPORT-IMPORT BANK OF INDIA

Lending pattern of RRB's in India

Regional Rural Banks (RRBs) are financial institutions in India that are focused on providing banking services to rural areas. RRBs are jointly owned by the central government, the state government, and the sponsoring bank. Here are some general trends that may be observed in the lending pattern of RRBs in India:

1. Agriculture and allied activities: RRBs provide credit to farmers for agriculture and allied activities, such as animal husbandry, fisheries, and

horticulture. These loans may be used to purchase agricultural inputs, machinery, and equipment, or to invest in land or other assets.

2. Micro, small, and medium enterprises (MSMEs): RRBs also provide credit to MSMEs for various purposes, such as working capital, investment in plant and machinery, and marketing. These loans are generally targeted at small businesses that have difficulty accessing credit from other sources.

3. Education and housing: RRBs also offer loans for education and housing. These loans may be used to finance education expenses for students or to purchase or construct a home.

4. Self-help groups (SHGs): RRBs provide credit to SHGs, which are groups of individuals who come together to save money and access credit. RRBs may also provide training and other support to SHGs to help them manage their finances and businesses effectively.

5. Priority sector lending: RRBs are required to meet the priority sector lending targets set by the Reserve Bank of India (RBI). This means that a certain percentage of their lending must be directed towards certain sectors, such as agriculture, MSMEs, and low-income housing.

Critical Analysis:

Despite their objective of promoting financial inclusion in rural areas, the outreach of RRBs remains limited. A significant number of rural areas in India still do not have access to formal banking services. RRBs need to expand their branch network and increase their outreach to ensure that more people in rural areas have access to financial services.

The quality of services provided by RRBs has been a concern in many rural areas. Some customers have reported issues such as long waiting times, inefficient services, and inadequate infrastructure at RRB branches. Improving the quality of services provided by RRBs would be crucial to enhancing their effectiveness in promoting financial inclusion. They typically offer only basic banking services, such as savings and current accounts, fixed deposits, and loans. They do not offer a comprehensive range of financial products that cater to the needs of rural customers, such as micro-insurance and micro-pension products. Offering a broader range of financial products would help RRBs meet the diverse needs of their customers.

RRBs are jointly owned by the central government, state government, and the sponsor bank. This ownership structure can lead to issues with governance and management. It can also create conflicts of interest that may affect the operations of RRBs. Improving governance and management practices would be crucial for ensuring the long-term sustainability of RRBs. With the expansion of digital banking and mobile payment systems, other financial institutions are increasingly targeting rural areas. This has intensified competition for RRBs and poses a threat to their survival. RRBs need to adopt innovative strategies to remain competitive and to enhance their relevance in rural areas.

In conclusion, while RRBs have played an important role in promoting financial inclusion in rural areas, there are some areas where they need to improve. Expanding their outreach, improving the quality of services, offering a broader range of financial products, and improving governance and management practices are some areas that require attention. Additionally, RRBs need to be innovative and responsive to changes in the financial services landscape to remain relevant and competitive in the long term.

Lending pattern of NABARD:

National Bank for Agriculture and Rural Development (NABARD) is a development financial institution in India that focuses on promoting agriculture and rural development. Here are some key aspects of NABARD's lending pattern:

Agriculture and allied activities: NABARD provides loans to farmers, agricultural cooperatives, and rural entrepreneurs for agriculture and allied activities, including crop production, animal husbandry, fisheries, and agribusiness. The loans may be for short, medium, or long-term durations, and may be used for working capital, capital expenditure, or other purposes.

Rural infrastructure development: NABARD also provides loans for rural infrastructure development, including irrigation, rural electrification, roads, and bridges. The loans may be provided to state governments, local bodies, or other entities involved in rural infrastructure development.

Microfinance: NABARD provides loans to microfinance institutions (MFIs) and self-help groups (SHGs) for microfinance activities, including microcredit, microinsurance, and microsavings. The loans may be for working capital, capital expenditure, or other purposes.

Social infrastructure: NABARD also provides loans for social infrastructure development, including education, healthcare, and sanitation. The loans may be provided to state governments, local bodies, or other entities involved in social infrastructure development.

Environment-friendly projects: NABARD also provides loans for environment-friendly projects, including renewable energy, water conservation, and biodiversity conservation. The loans may be provided to individuals, groups, or institutions involved in environment-friendly projects.

Critical analysis:

NABARD's lending pattern is aligned with its mandate to promote agriculture and rural development. The institution provides loans for various agricultural activities, including crop production, animal husbandry, and fisheries, as well as for rural infrastructure development, microfinance, social infrastructure, and environment-friendly projects. By providing finance for these activities, NABARD is contributing to the growth and development of the agriculture and rural sectors.

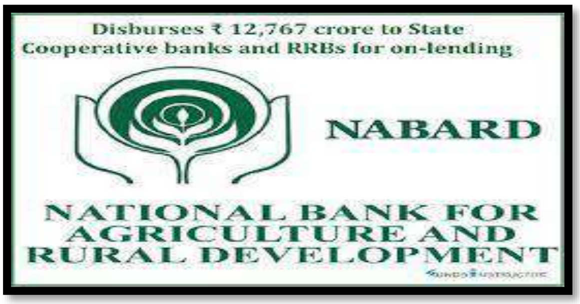
It is focused on promoting sustainability in the agriculture and rural sectors. The institution provides loans for environment-friendly projects, water conservation, and biodiversity conservation, among other activities. By promoting sustainable practices in these sectors, NABARD is contributing to the long-term health of the environment, as well as the economic and social well-being of rural communities.

Despite its important role in promoting agriculture and rural development, NABARD's lending pattern has a limited reach. The institution primarily provides loans to other financial institutions, such as cooperative banks and regional rural banks, which then lend to individual farmers and rural entrepreneurs. This limits NABARD's ability to directly reach and serve individual borrowers in remote or underserved areas.

NABARD is heavily reliant on funding from the Indian government, which provides it with budgetary support, as well as funds from other sources, such as the Rural Infrastructure Development Fund (RIDF). This dependence on government funding may limit NABARD's ability to operate independently and respond flexibly to changing market conditions.

NABARD's lending pattern could benefit from more innovation to keep pace with the rapidly changing needs of the agriculture and rural sectors. For example, the institution could explore more innovative approaches to lending, such as digital lending, to reach a wider range of borrowers more efficiently and effectively.

In conclusion, while its lending pattern is aligned with its mandate to promote agriculture and rural development, the institution faces challenges related to limited reach, dependence on government funding, and the need for more innovation. NABARD could benefit from exploring more innovative approaches to lending and expanding its reach to better serve the diverse needs of the agriculture and rural sectors in India.



Lending pattern of NBFC's in India:

Non-Banking Financial Companies (NBFCs) in India are financial institutions that offer banking and financial services without holding a banking license. NBFCs cater to a diverse range of customers and offer various types of loans and financial products. Here are some general trends that may be observed in the lending pattern of NBFCs in India:

Retail loans: NBFCs offer retail loans to individual customers for various purposes, such as personal loans, two-wheeler loans, car loans, and consumer durables loans. These loans are often targeted at customers who may not have access to credit from traditional banking institutions or who may find it difficult to meet the strict eligibility criteria of banks.

MSME loans: NBFCs offer loans to micro, small, and medium enterprises (MSMEs) for various purposes, such as working capital, equipment financing, and infrastructure development. These loans are targeted at MSMEs that have difficulty accessing credit from traditional banking institutions.

Loans against property (LAP): NBFCs offer LAP, which is a type of secured loan that is given against a property owned by the borrower. These loans are often used for business expansion, debt consolidation, or other financial needs.

Infrastructure financing: Some NBFCs provide financing for infrastructure projects, such as roads, ports, and power plants. These loans are typically long-term and are provided to large corporates that require substantial amounts of capital for their projects.

Gold loans: NBFCs offer gold loans, which are a type of secured loan that is given against gold jewellery or ornaments. These loans are often used for short-term financial needs and are popular among customers who may not have a good credit history or who may not have access to other types of credit.

Critical Analysis:

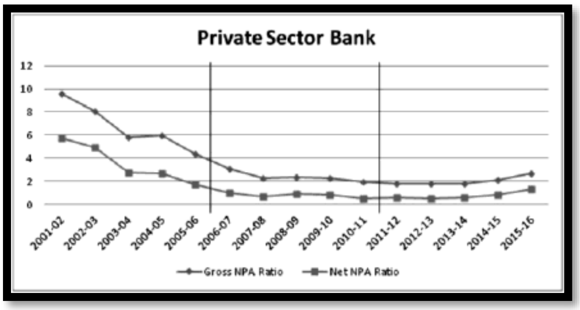
Non-Banking Financial Companies (NBFCs) have emerged as important players in the Indian financial system, offering a range of banking and financial services to a diverse customer base. Here are some critical aspects of NBFCs in India:

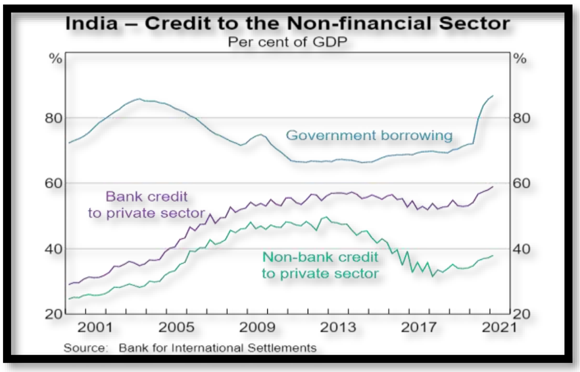
NBFCs operate in a high-risk environment and are exposed to various risks such as credit risk, market risk, and operational risk. The recent liquidity crisis faced by some NBFCs has raised concerns about the adequacy of risk management practices in the sector. Improving risk management practices is crucial for ensuring the stability of NBFCs and the wider financial system.

They are regulated by the Reserve Bank of India (RBI), which has implemented various measures to ensure that the sector operates in a safe and sound manner. However, some experts have called for stronger regulatory oversight, particularly in the areas of capital adequacy, liquidity management, and corporate governance. NBFCs cater to a diverse customer base, it is important to ensure that customers are protected from fraudulent and unethical practices. There have been instances of mis-selling and aggressive marketing by some NBFCs, which has led to customer complaints and legal action. Improving customer protection measures is crucial for maintaining the trust of customers and ensuring the long-term sustainability of NBFCs.

NBFCs have played an important role in promoting financial inclusion by providing access to credit to underserved and unserved segments of the population. However, the high interest rates and fees charged by some NBFCs have raised concerns about their impact on the financial well-being of customers. Balancing the need for access to credit with responsible lending practices is crucial for the sustainable growth of NBFCs and the promotion of financial inclusion. The emergence of digital lenders and the expansion of banking services in rural areas have intensified competition for NBFCs. Some experts have called for NBFCs to adopt innovative strategies, such as leveraging technology, to remain competitive and relevant in the changing financial services landscape.

In conclusion, while NBFCs have played an important role in the Indian financial system, there are some areas where they need to improve. Improving risk management practices, strengthening regulatory oversight, enhancing customer protection measures, balancing the need for credit with responsible lending practices, and adopting innovative strategies to remain competitive are some areas that require attention. Addressing these issues is crucial for ensuring the long-term sustainability of NBFCs and promoting financial inclusion in India.





How does the BFSI sector in India balance their objective of increasing lending without increasing NPA's?

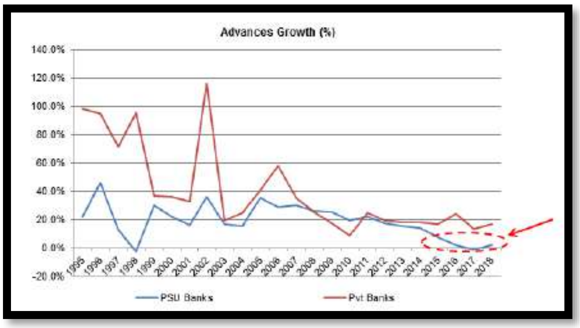
One of the key ways that the BFSI sector balances their objectives is by ensuring that they have robust credit assessment processes in place. This involves thoroughly evaluating the borrower's creditworthiness, assessing their financial position and repayment capacity, and monitoring the loan portfolio regularly to identify potential risks. By identifying and managing credit risk proactively, banks can minimize the likelihood of NPAs.

The BFSI sector in India is also focusing on diversifying their lending portfolio to minimize concentration risk. This involves lending to multiple sectors, geographies, and customer segments to reduce the impact of any adverse developments in a particular sector or region. Diversification can help banks spread their risk and minimize the likelihood of NPAs.

Many banks and financial institutions are adopting technology to improve their risk management practices. This includes using data analytics, artificial intelligence, and machine learning to enhance credit assessment, identify potential risks, and monitor the loan portfolio. By leveraging technology, banks can improve their risk management practices and minimize the likelihood of NPAs.

The BFSI sector is also focusing on strengthening their risk management practices minimizing the likelihood of NPAs. This involves developing robust governance frameworks, establishing clear lines of accountability, and ensuring that all levels of the organization are aligned with risk management objectives. By strengthening risk management practices, banks can minimize the likelihood of NPAs.

Banks and financial institutions need to comply with various regulatory requirements related to credit risk management, including capital adequacy, liquidity management, and asset quality. Compliance with these regulations can help banks manage credit risk effectively and minimize the likelihood of NPAs.



Conclusion:

In conclusion, the lending patterns of various financial institutions in India reflect the country's economic and social development priorities. The Reserve Bank of India has mandated the lending to the priority sector, which includes agriculture, micro, small and medium enterprises, education, and other disadvantaged groups, to ensure inclusive and equitable economic growth.

The analysis of the lending patterns of public sector banks, private banks, NBFCs, regional rural banks, NABARD, and EXIM bank reveals that there are significant variations in the loan portfolios, interest rates, and non-performing assets. The literature review suggests that the lending patterns of these institutions are influenced by various factors such as government policies, macroeconomic conditions, and internal risk management practices.

The critical analysis of these lending patterns shows that while there have been some successes in expanding access to finance to previously underserved sectors and populations, there are also significant challenges that need to be addressed. Non-performing assets and risk management remain a persistent challenge for many financial institutions, which has led to a tightening of lending norms and procedures. Furthermore, there is a need for greater transparency, accountability, and regulation in the financial sector to ensure that the lending practices are fair and equitable.

Overall, this research paper provides a comprehensive understanding of the lending patterns of various financial institutions in India and highlights the need for continued efforts to improve access to finance, enhance risk management practices, and promote inclusive and sustainable economic development.