

Impact of Lending By Money Lenders (Unorganised Sector) On Sickness of MSMEs in Uttar Pradesh

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ABSTRACT:

This paper attempts to examine the number of sick units in Uttar Pradesh. This paper also highlights the reasons for sickness in MSME sector in India. For this purpose the necessary data required for the study have been collected from the Final report of Fourth All India Census of MSME, Ministry of Micro, Small and Medium Enterprises, Government of India.2006-07. Inadequacy of raw material, shortage of orders, decline in production are the main causes of sickness in MSMEs but shortage of funds is the key factor of the sickness in MSMEs whereas majority of sick units are not taking loans and those who are taking loans for their rehabilitation, among them majority of sick MSMEs are taking loans from money lenders (unorganised sector) and due to varied reasons they become defaulters leading to the additional sickness.

1. OFFICIAL DEFINITION OF MSMEs.

In India, the enterprises have been classified broadly into two categories:

- (i) Manufacturing; and
- (ii) Those engaged in providing/rendering of services.

Both categories of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery (for manufacturing enterprises) or on equipments (in case of enterprises providing or rendering services). The present ceiling on investment to be classified as micro, small or medium enterprises is as under: Investment Ceiling for Plant, Machinery or Equipments.

Investment Ceiling for Plant, Machinery or Equipments*

Classification	Manufacturing Enterprises	Service Enterprises
Micro	Upto Rs.25 lakh (\$50 thousand)	Upto Rs.10 lakh (\$20 thousand)
Small	Above Rs.25 lakh (\$50 thousand) & upto Rs.5 crore (\$1 million)	Above Rs.10 lakh (\$20 thousand) & upto Rs.2 crore (\$0.40 million)
Medium	Above Rs.5 crore (\$1 million) & upto Rs.10 crore (\$2 million)	Above Rs.2 crore (\$0.40 million) & upto Rs.5 crore (\$1 million)

*Fixed costs are obviously higher.

*Excluding land and building.

@ \$1 = Rs.50 (April 2009).

2. PROFILE OF INDIAN MSME SECTOR

From the Table: 1.1.1, it may be seen that there are 130 Lakhs of MSMEs which provides employment to 410 Lakhs peoples. Besides that the contribution of MSMEs alone has been greater than 8% to GDP and 45% to Industrial production. It is also the second largest provider of employment after agriculture.

MSMEs also contribute to 40% of total exports directly and a significant amount of exports indirectly through large trading houses or third parties.

Source: Federation of Indian Micro, Small and Medium Enterprises.

3. MSMEs IN UTTAR PRADESH

There are 1.88 Lakhs working MSMEs in Uttar Pradesh which constitutes 12% of total Indian MSMEs. Uttar Pradesh is 3rd largest state in India

MSMEs in Uttar Pradesh, provides employment to 7.55 Lakhs people which constitutes 8.11% of total employment provided by Indian MSMEs. Uttar Pradesh is 5th largest state in India.

MSMEs in Uttar Pradesh, gives output of Rs. 74065.17 Crores which constitutes 10.47% of total output of Indian MSMEs. Uttar Pradesh is 2nd largest state in India.

MSMEs in Uttar Pradesh, employs fixed assets of Rs 33666.01 Crores which constitutes 7.50% of total fixed assets employed by Indian MSMEs. Uttar Pradesh is 4th largest state in India.

MSMEs in Uttar Pradesh, has investment in plant & machinery of Rs 4829.37 Crores which constitutes 4.60% of total investment in plant & machinery in Indian MSMEs. Uttar Pradesh is 4th largest state in India.

Data given above implies that Uttar Pradesh state is in overall a major constituent of Indian MSMEs. It seeks attention to study the entrepreneurship in MSMEs in Uttar Pradesh in depth. So that low employment, less investment in fixed assets and plant & machinery, high rate of untraced MSMEs despite of huge output can be studied and the solution of related problems could be found out.

(As per Final Report of the Fourth All India Census of Micro, Small & Medium Enterprises 2006-07: Registered Sector)

4. SICKNESS IN MSMEs DEFINED.

According to RBI guidelines credit facilities sanctioned by banks may turn out to be out of order irregular due to various reasons which may be minor or major, temporary or of a more lasting nature. Depending upon the type of irregularity, necessary remedial measures are to be taken.

As per the revised definition, a Micro or Small Enterprise (as defined in the MSME Act 2006) may be said to have become 'Sick' if—

- i. Any of the borrowal account of the enterprise remains NPA for three months or more

OR

ii. There is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year.

4.1 What are the causes of sickness in MSMEs

The causes of sickness in an Industrial Unit can be broadly classified into two categories:

- i. Internal causes are those causes which can be attributed to the management of the unit.
- ii. External causes are those which are attributed to factors outside the purview / control of the promoters / management / banks etc.

There are many and varied reasons for sickness in MSME sector. Some of these are:

- Inadequacy of working capital, delay in sanction of working capital and time gap between sanction of term loan and working capital.
- Poor and obsolete technology
- Problem related to availability of raw material
- Inadequate demand and other marketing problems
- Erratic power supply
- Labour problems
- Infrastructural constraints
- Poor Management
- Inadequate attention to R&D
- Diversion of resources
- Inability of the units to face growing competition due to liberalization and globalization

To know how Money Lenders by lending money to sick MSMEs of Uttar Pradesh are not helping them rather they are creating more sickness among them, for that data from at least 50 sick MSMEs in total will be collected for analysis.

In all 50 sick MSMEs from Uttar Pradesh is taken for the study and out of those 50 units, 35 MSMEs are from Rural areas and rest 15 MSMEs are located in Urban areas.

Whereas, out of those 50 units only 20 sick MSMEs had taken loans whereas rest 30 units had borrowed from any source, and from those 20 sick MSMEs who had taken loans from various sources

(1 unit) 5% of the rural MSMEs had taken loan either from their Family/Friends/Relatives.

(5 units) 25% of the rural MSMEs had taken loans from the Commercial Banks.

(12 units) 60% of the rural MSMEs had taken loans from the Money Lenders.

(2 units) 10% of the rural MSMEs had taken loans from the Financial Institutions.,

Out of those 12 sick MSMEs which had taken loans from moneylenders only 3 sick units were able to repay their loans been taken and the rest 9 units became defaulters due to varied reasons some of them are named below.

1 unit (11% of the defaulters) faces continuous losses in their businesses.

2 units (22% of the defaulters) faces the delay in obtaining working capital

6 units (67% of the defaulters) were going through the problem of high rate of interest and due to high rate of interest they were unable to repay their principal amount of loans.

CONCLUSION:

So it is clear from the above study that out of 50 sick units only 20 sick units are be able to obtain loan and 30 units have different reasons fro not borrowing and from those 20 units majority of them(12 units) are taking loans from moneylenders (unorganised sector) due to various resons like

1: Cumbersome formalities,

2: Unfriendly environment and due to hesitation,

3: Illiteracy,

4: Lack of rural branches of banks and financial institutions,

5: Unawareness of policies framed by Government, etc are some of the reasons of borrowing by MSMEs from the moneylender (unorganised sector), from them as they find easy to borrow money with lesser formalities, friendly environment, lack of hesitation due to family affairs and social terms, availability of credit at any time either day or night, etc. Due to these reasons popularity of money lending by unorganised sector is increasing day by day.

However, this would not be a matter of concern that MSMEs are borrowing from unorganised sector if they were curing their sickness but here the picture is representing something different, 12 sick MSMEs approaches the money lenders (unorganised sector) with the aim for their revival but the end is something different as out of 12 sick MSMEs only 3 sick units were able to repay their loans back and rest 9 sick units becomes more sick and turns out to the defaulters.

1 out of 9 sick MSME is facing continuous losses on account of obselete technology, cut throat competition, seasonal demand, heavy burden of loans,etc.

2 out of 9 sick MSMEs faces the delay in obtaining working capital, however they are able to obtain the loans required to start their but as they were not able to obtain the working capital, their production hadn't been started but the burden of payment of interest remains on them, due to the payment of interest, their cost of production remains ahead of their revenues and they face losses resulting in their sickness.

6 out of 9 sick MSMEs had become defaulters as they have to pay high rate of interest to money lenders so their profits seems inadequate for their growth, research and development along with inadequacy of profits they are sometimes facing additional losses leading to their sickness.

SUGGESTIONS:

After undergoing such a deep analysis, it can be suggested that more number of bank branches should be opened in rural areas whereas those branches which are operating should aim at its efficiency and they should treat sick MSMEs with care, formalities in granting loans should be minimised, information regarding policies in support of MSMEs should be spread out comprehensively, in addition to this information regarding latest technology should also be spread. Methods should be devised to make MSMEs more competitive and healthy, supportive and expert advice should be provided at large to the entrepreneurs of sick MSMEs.

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