Institutional Framework to Promote Micro, Small and Medium Enterprises in India

Mr. Partha.T¹, Dr. N. Nagaraja²
¹Research Scholar, DoS in Commerce, University of Mysore, Manasagangotri, Mysore, INDIA
²Associate Professor, DoS in Commerce, University of Mysore, Manasagangotri, Mysore, INDIA

ABSTRACT
Many thinkers percept, Small Scale Industries (SSIs) are the focal point of Economic growth. In order to support Small Scale Industries, various, Central, State and Private Institutions, such as, IFCI, IDBI, SIDBI, SFCs, NSIC, Venture Capital firms, etc. have evolved in India. These institutions are playing very vital role in facilitating financial and non financial resources for Small Scale Industries according to their desires. But, many researchers proved that SSIs are facing financial problems. Here the researcher has made an attempt to give an overview of institutional framework for financing MSME sector in India with an objective “to study the financing institutions for Micro Small and Medium Enterprises in India”. The study is descriptive in nature and mainly relayed on secondary sources of information. Finally researcher found that there are many national and state level financing institutions are existing to promote MSMEs but these institutions are concentrated in urban areas, but majority of the MSMEs are located in Rural areas. So the researcher suggest to the funding agencies to establish their branches at every Taluks, Hoblis, and Panchayat levels in order to make the free flow of finance to MSME sector to make their operations much more lucrative.

I. INTRODUCTION

Financial sector plays an indispensable role in the overall development of a country. The most important constituent of this sector is the financial institutions, which act as a conduit for the transfer of resources from net savers to net borrowers, that is, from those who spend less than their earnings to those who spend more than their earnings. The financial institutions have traditionally been the major source of long-term funds for the economy. These institutions provide a variety of financial products and services to fulfill the varied needs of the commercial sector. Besides, they provide assistance to new enterprises, small and medium firms as well as to the industries established in backward areas. Thus, they have helped in reducing regional disparities by inducing widespread industrial development. Here, researcher has made an attempt give a clear picture of financing institutions for MSME sector.

II. DEFINITION OF MICRO, SMALL AND MEDIUM ENTERPRISES

In accordance with the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, the Micro, Small and Medium Enterprises (MSME) are classified into two Classes:
Manufacturing Enterprises: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951. The Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.

III. ROLE OF MSME SECTOR IN INDIAN ECONOMY

As per the results of Fourth All India Census of Micro, Small & Medium Enterprises (MSME), the sector contributes significantly to the number of enterprises, employment and output of the country. Based on the data sets of Third and Fourth All India Census of SSI /
MSMEs, augmented with data sets of EC, 2005 and growth rate observed during Fourth (1998) and Fifth (2005) Economic Census, the performance of SSI/MSME Sector is summarised as below. It may be noted that for both the Third and Fourth All India Census of SSI/MSMEs, unregistered sector was assessed by conduct of sample survey of the sector:-

Table No. 01

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Total Working Enterprises (in Lakh)</th>
<th>Employment (in Lakh)</th>
<th>Market Value of Fixed Assets (Rs. in Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>II</td>
<td>III</td>
<td>IV</td>
<td>V</td>
</tr>
<tr>
<td>1.</td>
<td>2001-02</td>
<td>105.21</td>
<td>246.23</td>
<td>154,349.00</td>
</tr>
<tr>
<td>2.</td>
<td>2002-03</td>
<td>104.49</td>
<td>240.21</td>
<td>162,917.00</td>
</tr>
<tr>
<td>3.</td>
<td>2003-04</td>
<td>113.95</td>
<td>271.42</td>
<td>170,214.00</td>
</tr>
<tr>
<td>4.</td>
<td>2004-05</td>
<td>118.59</td>
<td>282.57</td>
<td>178,696.00</td>
</tr>
<tr>
<td>5.</td>
<td>2005-06</td>
<td>123.42</td>
<td>294.91</td>
<td>188,113.00</td>
</tr>
<tr>
<td>6.</td>
<td>2006-07</td>
<td>361.76</td>
<td>*</td>
<td>805.23*</td>
</tr>
<tr>
<td>7.</td>
<td>2007-08</td>
<td>377.98</td>
<td>842.00</td>
<td>820,456.84</td>
</tr>
<tr>
<td>8.</td>
<td>2008-09</td>
<td>393.70</td>
<td>890.84</td>
<td>977,114.72</td>
</tr>
<tr>
<td>9.</td>
<td>2009-10</td>
<td>410.80</td>
<td>921.79</td>
<td>1,038,546.08</td>
</tr>
<tr>
<td>10.</td>
<td>2010-11</td>
<td>428.73</td>
<td>905.15</td>
<td>1,105,834.09</td>
</tr>
<tr>
<td>11.</td>
<td>2011-12</td>
<td>447.66</td>
<td>1,011.80</td>
<td>1,183,332.00</td>
</tr>
<tr>
<td>12.</td>
<td>2012-13</td>
<td>467.56</td>
<td>1,061.52</td>
<td>1,266,338.02</td>
</tr>
</tbody>
</table>

Source: MMSME Annual Report

Interpretation:
The above table depicts the performance of MSMEs: Employment, Investment & market value of fixed assets. It can be inferred that since from 2001-02 to 2012-13 the number of working enterprises, Employment, market value of fixed assets have been increasing. Following figures shows employment generation, working enterprises and Investment in fixed assets.

Figure No.01

Figure Showing Number of Enterprises in MSME Sector:

Inference:
The above figure shows number of working MSMEs. It can be seen that as of 2012-13 there are 467.56 lakhs of MSMEs are working and the growth of number of working enterprises is progressive.

Figure No.02

Figure Showing Employment in MSME Sector

Source: MMSME Annual Report
Inference:
The above figure shows number of working MSMEs. It can be seen that as of 2012-13 MSMEs have been generated 1061.52 lakhs of employment, and the growth of employment generation by MSMEs is increasing every year.

Table No.2
Table Showing Contribution of MSME (Manufacturing Sector) in the Gross Domestic Product (GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Value of Output (Rs. in Crore)</th>
<th>Percentage Share of MSME</th>
<th>Gross Domestic Product (GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Manufacturing Output</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006-07</td>
<td>1198817.55</td>
<td>42.02</td>
<td>7.73</td>
</tr>
<tr>
<td>2007-08</td>
<td>132290.41</td>
<td>41.98</td>
<td>7.81</td>
</tr>
<tr>
<td>2008-09</td>
<td>137568.50</td>
<td>80.78</td>
<td>7.52</td>
</tr>
<tr>
<td>2009-10</td>
<td>148890.23</td>
<td>39.63</td>
<td>7.49</td>
</tr>
<tr>
<td>2010-11</td>
<td>165560.60</td>
<td>38.45</td>
<td>7.42</td>
</tr>
<tr>
<td>2011-12</td>
<td>179080.67</td>
<td>37.52</td>
<td>7.28</td>
</tr>
</tbody>
</table>

Interpretation:
The above table shows the contribution of MSMEs in the GDP. It can be inferred that since from the 2006-07 to 2011-12 MSMEs contribution in the Gross Domestic Product is consistent with slight changes. Though the market value of assets changes in the MSMEs contribution to GDP is remain unchanged.

Figure No.04
Figure Showing Leading Industries in MSME Sector

Source: MMSME Annual Report
Inference:
The above figure indicates the leading industries in MSME sector. A majority 39.85% of the MSMEs are industries such as, Retail Trade, Vehicle and Household Repair. 8.75 % of the MSMEs are manufacturing apparels, and dressing & dying., 6.54% are manufacturing food products. 6.20% of MSMEs are providing other services. 3.77% of them are doing other business activities, 3.64% of MSMEs are in hotel& restaurant industry, 3.57% of them are trading, repairing and maintenance of motor vehicle and retail sale of automobiles. 3.21% of the business entities are manufacturing furniture. 2.33% of them are manufacturing textiles, 2.33% of MSMEs are doing fabrication works. Remaining 29.40% of MSMEs are scattered in some other business activities.

Figure No.05
Figure showing Distribution of Working Micro, Small and Medium Enterprises by Area

Source: Fourth all India Census of MSMEs

Inference:
The above figure shows distribution of working MSMEs by area. A majority of 55.35% of MSMEs is established in the rural area and 44.66% of the MSMEs are located in urban area.

IV. OBJECTIVE OF THE STUDY

- To identify the financing Institutions for MSMEs'.
- To understand the objectives of funding agencies.
- To suggest based on the findings of the study.

V. SCOPE OF THE STUDY AND DATA COLLECTION

The present study mainly focused on financing institutions for MSMEs in India and the facts and figures analyzed based on the information gathered from secondary sources of Information.
INSTITUTIONAL FRAMEWORK FOR THE GROWTH OF MSME SECTOR
The following chart briefly about Conventional Financial Institutions for lending Small Scale Industries in India.

Figure No.5
Figure Showing Conventional Financial Institutions for lending Small Scale Industries in India.

Conventional Sources of Finance

- All India
  - Financial Institutions
    - SIDBI
    - NSIC
    - KVIC
    - EXIM Bank
    - NABARD
  - Capital Market
    - SME Exchange (BSE & NSE)
- State-Level
  - SFCs
  - SIDCs

Sources: Survey Data

The above charts show the National Level and State level financial institutions such as SIDBI, NSIC, KVIC, EXIM Bank, NABARD, SME Exchange, and SFCs, SIDCs respectively. The aforesaid institutions are the major players in the field of industrial finance and majority of the MSMEs are relayed on these financial institutions to congregate the business expenses. The origin and objectives of these institutions are presented in the following lines.
Conventional Sources of finance for MSMEs:

Financial sources for MSMEs can be classified as conventional and un-conventional financial sources. Here, Conventional sources represent a group of financing institutions established formally and functioning according to the rules and regulations. On the other side un-conventional financial sources are basically informal in nature such as , Friends, Family, Relatives, peers, crowd funding, etc. an overview of conventional financial sources has been presented below.

National Level Financing Institutions for Small Scale Industries

In order to assist the promotion and development of small scale sector, Government of India has been providing long term finance to small-scale industries through many financial institutions. As small scale industries find it difficult to raise the required finance in the normal course, the Government has set up several institutions to provide finance on easy terms. In addition public sector banks have been instructed to meet the financial needs of small scale industries on priority basis.

Institutional Financing for small scale industries is necessary due to several reasons such as small scale units have weak economic base, these units are unable to provide sufficient collateral to lenders and the like. As such they have very limited access to capital market and recognizing these problems, the Government has created an institutional framework for financing small scale firms. These institutions may be classified as follows:

- Small Industries Development Bank of India (SIDBI)
- National Small Industries Corporation (NSIC)
- KVIC
- EXIM Bank
- NABARD
- SME Exchange

National Level Financing Institutions for Small Scale Industries

Small Industries Development Bank of India (SIDBI)

An overview of SIDBI

In view of the increasing need for financial assistance to small scale industries, a specialized financial institution exclusively for the small scale sector became necessary. Accordingly, the SIDBI was set up as a subsidiary of the IDBI; it commenced operations on April 2, 1990. SIDBI took over the Small industries development fund and the National Equity Fund set up earlier in IDBI, SIDBI has been assigned the role of apex financial institution for the promotion, financing and development of small scale sector and for co-ordinating the activities of other institutions engaged in providing assistance to small scale units.

Objectives of SIDBI

Four basic objectives are set out in the SIDBI Charter. They are:

- Promotion
- Financing
- Development of industries in SSI

Coordinating the functions of other institutions engaged similar activities

National Small Industries Corporation (NSIC)

- An overview of NSIC

National Small Industries Corporation Ltd. (NSIC), is an ISO 9001-2008 certified Government of India Enterprise under Ministry of Micro, Small and Medium Enterprises (MSME). NSIC has been working to fulfill its mission of promoting, aiding and fostering the growth of small industries and industry related micro, small and medium enterprises in the country. Over a period of five decades of transition, growth and development, NSIC has proved its strength within the country and abroad by promoting modernization, upgradation of technology, quality consciousness, strengthening linkages with large medium enterprises and enhancing exports - projects and products from small enterprises.

Objectives of NSIC

NSIC carries forward its mission to assist small enterprises with a set of specially tailored schemes designed to put them in a competitive and advantageous position as follows:

- to provide machinery on hire purchase basis and assisting and marketing in exports. Further, SSI's registered with NSIC were exempted from paying Earnest money and provided facility of free participation in government tendered purchases. Also for training persons the training facilities centers and for providing assistance in modernizing the small industries several branches of NSIC were opened up by government over the years in several big and small towns, where small industries were growing.
- organizing supply of raw materials like coal, iron, steel and other materials and even machines needed by small scale private industries by mediating with other government companies like Coal India Limited, Steel Authority of India Limited, Hindustan Copper Limited and many others, who produce this materials to provide same at concessional rates to SSIs.
- it also provides assistance to small scale industries by taking orders from Government of India owned enterprises and procures these machineries from SSI units registered with them, thus providing a complete assistance right from financing, training, providing raw materials for manufacturing and marketing of finished products of small scale industries, which would otherwise not be able to survive in face of competition from large and big business conglomerates
- also helps SSI by mediating with government owned banks to provide cheap finance and loans to budding small private industries of India
- It is also providing assistance by setting up incubation centers in other continents and also international technology fairs to provide aspiring entrepreneurs and emerging small enterprises a
platform to develop skills, identify appropriate technology, provide hands-on experience on the working projects, manage funds through banks, and practical knowledge on how to set up an enterprise.

Khadi and Village Industries Commission (KVIC)

- **An overview of KVIC**

The Khadi and Village Industries Commission (KVIC) is a statutory body formed by the Government of India, under the Act of Parliament, ‘Khadi and Village Industries Commission Act of 1956’. It is an apex organization under the Ministry of Micro, Small and Medium Enterprises, with regard to khadi and village industries within India, which seeks to "plan, promote, facilitate, organise and assist in the establishment and development of Khadi and Village Industries in the rural areas in coordination with other agencies engaged in rural development wherever necessary. In April 1957, it took over the work of former All India Khadi and Village Industries Board. The First Director of KVIC was Late Sardar K A Venkataramaiya, a veteran freedom fighter from Karnataka. Its head office is based in Mumbai, with its six zonal offices in Delhi, Bhopal, Bangalore, Kolkata, Mumbai and Guwahati. Other than its zonal offices, it has offices in 29 states for the implementation of its various programs.

**Objectives**

The broad objectives that the KVIC has set before it are...
- The social objective of providing employment.
- The economic objective of producing saleable articles.
- The wider objective of creating self-reliance amongst the poor and building up of a strong rural community spirit.

Export-Import Bank (EXIM Bank)

- **An overview of EXIM Bank**

Export-Import Bank of India is the premier export finance institution of the country. It commenced operations in 1982 under the Export-Import Bank of India Act 1981. Government of India launched the institution with a mandate to not just enhance exports from India, but also to integrate the country’s foreign trade and investment with the overall economic growth. Exim Bank of India has been both a catalyst and a key player in the promotion of cross border trade and investment. Commencing operations as a purveyor of export credit, like other Export Credit Agencies in the world, Exim Bank of India has evolved into an institution that plays a major role in partnering Indian industries, particularly the Small and Medium Enterprises through a wide range of products and services offered at all stages of the business cycle, starting from import of technology and export product development to export production, export marketing, pre-shipment and post-shipment and overseas investment.

**Objectives**

- Overseas Investment Finance
- Project Finance
- Line of Credit
- Corporate Banking
- Buyer's Credit Under NEIA

National Bank for Agriculture and Rural Development (NABARD)

**An Overview of NABARD**

At the instance of Government of India Reserve Bank of India (RBI), constituted a committee to review the arrangements for institutional credit for agriculture and rural development (CRAFICARD) on 30 March 1979, under the Chairmanship of Shri B.Sivaraman, former member of Planning Commission, Government of India to review the arrangements for institutional credit for agriculture and rural development. The Committee, in its interim report, submitted on 28 November 1979, felt the need for a new organisational device for providing undivided attention, forceful direction and pointed focus to the credit problems arising out of integrated rural development and recommended the formation of National Bank for Agriculture and Rural Development (NABARD). The Parliament, through Act 61 of 1981, approved the setting up of NABARD. The bank came into existence on 12 July 1982 by transferring the agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC). NABARD was dedicated to the service of the nation by the late Prime Minister Smt. Indira Gandhi on 05 November 1982.

**Objective**

Promote sustainable and equitable agriculture and rural prosperity through effective credit support, related services, institution development and other innovative initiatives.

SME Exchange

- **An Overview of SME Exchange**

An SME Exchange is a stock exchange dedicated for trading the shares / securities of SMEs who otherwise find it difficult to get listed on the Main Board. The concept originated from the difficulties faced by SMEs in gaining visibility and attracting sufficient trading volumes when listed along with other stocks on the Main Board of stock exchanges. World over, dedicated SME trading platforms or exchanges are prevalent, which are known by different names such as 'Alternate Investment markets' or 'growth enterprises market', 'SME Board' etc. Some of the known markets for SMEs are AIM (Alternate Investment Market) in UK, TSX Ventures in Canada, GEM (Growth Enterprise Market) in Hong Kong, MOTHERS (Market of the high-growth and emerging stocks) in Japan, Catalist in Singapore and the latest initiative in China - Chinext. As a matter of fact, NASDAQ also started as an SME exchange.

**Objectives**

- Liquidity
- Security
- Accessibility

State Level Financing Institutions for MSMEs

Promotional instructions schemes and public sector manufacturing units are the major components of
programmers under medium and large industries. State Government assists the industrial units by providing financial assistance, infrastructure and training consultancy services. Important agencies departments engaged in the industrial promotion in the State are.

- State Financial Corporations (SFCs)
- SSIDCs

**State Financial Corporations (SFCs)**

An Overview of SFCs:

State Financial Corporations have been established under the Financial Corporation Act, 1951. At present there are 18 SFCs operating states as per list given in Appendix 9.1 State Financial Corporation., provide long-term finance for setting up of the smaller projects within their region.

The State Financial Corporations (SFCs), operating as development are state-level financial institutions, playing a crucial role in the level small and medium enterprises in the states in tandem with the national

The SFCs provide financial assistance by way of term loan, subscription to equity/debentures, guarantees, discounting of bills of and seed/special capital. The SFCs operate a number of schemes of and equity type assistance on behalf of IDBI/SIDBI, in addition to the schemes for artisans, and special target groups such as SC/ST, women, ex-servicemen and physically handicapped.

The SFCs (Amendment) Act, 2000 which became effective in 2000, provide greater flexibility to the SFCs to cope with the challenges by the deregulated financial system.

**State Industrial Development Corporations (SIDCs)**

An Overview of SIDCs:

The State Industrial Development Corporations (SIDCs) were c under the Companies Act, 1956 as wholly owned undertakings of the governments with the specific objectives of promoting and developing and large industries in their respective states/union territories. These extend financial assistance in the form of rupee loans, underwriting subscriptions to shares/debentures, guarantees, inter-corporate also opens letters of credit on behalf of its borrowers. SIDCs undertake of promotional activities including preparation of feasibility reports, conducting industrial potential, surveys entrepreneurship training & development programmes and developing industrial areas/estates. Some SIDCs also offer a package of developmental services that include technical guidance, assistance in plant location and co-ordination with other agencies. With a view to providing infrastructural facilities for the establishment of industrial units, SIDCs are involved in the setting up of industrial growth centres. To keep pace with the hanging economic environment, SIDCs have initiated various measures to expand the scope of their activities and have entered into various fee-based activities.

Of the various SIDCs in the country, those in Andaman & Nicobar, Arunachal Pradesh, Daman & Diu and Dadra & Nagar Haveli, Goa, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Pondicherry and Sikkim also act as SFCs to provide assistance to small and medium enterprises and act as promotional agencies for this sector.

State Industrial Development Corporation operate at slightly higher level than SFCs though these institutions are also primarily working as Development Financial Institutions promoting industrial projects in small and medium scale.

VI. CONCLUSION

Micro, Small and Medium Enterprises are having ample of sources to obtain finance at national level and state level as well. All national and state level enterprises are lending finance with the objectives which shows the intention to insist industrial production, employment generation, and self reliance of the unemployed youth. But it seems that there is a huge communication gap between lenders and borrowers and lack of awareness about the schemes and products of funding agencies among the MSMEs’ entrepreneurs. I suggest that more institutions are required to promote MSMEs at rural level since majority of the MSMEs are located in the rural areas.

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