

Financial Support System towards Micro, Small and Medium Enterprises

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Abstract

Micro, small and medium enterprises (MSMEs) play a important role in the industrial development of the country. These enterprises contribute to the country's GDP and are a major part of country's industrial production, exports, etc. These firms help in generating employment across the country and also restrict concentration of wealth in few hands. These enterprises construct an entrepreneurial substratum in the economy by developing and nurturing the talents, skills, etc. and helps out in the reduction of poverty. Due to high labour intensity, this sector has been provided a priority status by both the Central and the State Governments. The MSME sector in India is heterogeneous in nature, widely dispersed and mostly unorganised. It includes various types of production units ranging from khadi, coir & crafts to technologically viable industries. The MSME's faced various challenges related to finance, operations, marketing, infrastructural, technological and legal. Various measures are taken by Government for the upliftment of MSME's. Traditionally private funds from family & friends are single and largest source of finance but for the exploitation of MSME's full potential there is a requirement of private equity. Support of entrepreneurs and Government is highly required for the development of Indian Economy. For this purpose Government has launched several supportive schemes such as Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit Linked Capital Subsidy Scheme (CLCSS), Under Single Window Scheme financial requirements of MSME's can be satisfied through single agency.

***Key Words:** MSME, EDP, MSMED, Private Equity, MSME financing, Support Schemes, Single Window Scheme, Credit Guarantee Fund Trust.*

1. INTRODUCTION & DEFINITION OF MICRO, SMALL & MEDIUM ENTERPRISES

Micro, small and medium enterprises (MSMEs) play a vital role in the overall industrial development of the country. These enterprises have been a significant contributor to the national income, with large involvement in the country's industrial production, exports, etc. These firms not only help in generating employment opportunities for millions of people across the country, but also check the problem of concentration national wealth in few hands. These enterprises create a sound entrepreneurial substratum in the economy by developing and nurturing

the talents, skills, etc. of small and medium scale entrepreneurs and helps in the reduction of poverty. Due to high labour intensity, this sector has been regarded a priority status by both the Central and the State Governments.

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

- (a) **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 or

employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.

(b) **Service Enterprises:** The enterprises engaged in providing or rendering of services

and are defined in terms of investment in equipment.

The limit for investment in plant and machinery/ equipment for manufacturing/service enterprises, as notified, vide S.O. 1642(E) dtd.29-09-2006 are as under:

Manufacturing Sector

Service Sector

Enterprises	Investment in plant & machinery	Enterprises	Investment in Equipments
Micro Enterprises	Does not exceed twenty five lakh rupees	Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees	Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees	Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

There are about twenty-one major industry groups in the small scale sector. These are listed below:

- Food Products
- Chemical & Chemical Products
- Basic Metal Industries
- Metal Products
- Electrical Machinery & Parts
- Rubber & Plastic Products
- Machinery & Parts Except Electrical goods
- Hosiery & Garments - Wood Products
- Non-metallic Mineral Products
- Paper Products & Printing
- Transport Equipments & Parts
- Leather & Leather Products
- Miscellaneous Manufacturing Industries
- Other Services & Products
- Beverages, Tobacco & Tobacco Products
- Repair Services
- Cotton Textiles

- Wool, Silk, Synthetic Fibre Textiles
- Jute, Hemp and Mesta Textiles
- Other Services

MSME units produce an amazing variety and type of products. Over 7500 products are known to be manufactured in this sector. Even in a particular product, there would exist a wide range of qualities or specifications catering to different market segments, particularly in consumer/household products. MSME sector has emerged as a major supplier of mass consumption items like,

- leather and leather goods
- plastic and rubber goods
- ready-made garments
- hosiery goods, sheet metal goods
- stationery items - soap and detergents
- domestic utensils
- toothpaste and toothpowder
- safety matches
- preserved foods and vegetables

□ wooden and steel furniture
 □ paints and varnishes etc.,
 Among the technology oriented product range the items include -

- Television sets
- calculators
- microwave components
- plastic film capacitors
- carbon film registers
- electro medical equipments
- electronic teaching aids
- digital measuring equipments
- air-conditioning equipments
- optical lenses
- drugs and pharmaceuticals
- electric motors
- pesticide formulators
- photographic sensitised paper
- razor blades
- collapsible tubes, etc.

2. OBJECTIVES OF STUDY

- i To understand the role of MSME's in Indian economy.
- ii To know about the capital requirement in MSME's
- iii To know about the challenges faced by MSME sector.
- iv To examine the role of government in providing financial support to MSME's.
- v To know about the projects, programmes and schemes run by government.

3. UPLIFTMENT MEASURES FOR MSME

The present policy of encouraging growth of micro and small scale industries is based on several measures like -

1. Reservation of products for exclusive manufacture in the small scale sector in areas

where there is techno-economic justification for such an approach.

2. Large/Medium units can, however, manufacture such reserved items provided they undertake to export 50% or more of their production.
3. Recognizing the importance of small and medium enterprises in the growth of Indian economy in terms of their contribution to country's industrial production, exports, employment and creation of entrepreneurial base.

(a) Basic Steps for Covering The Root Level :
 The Central and State Governments are undertaking several policies including incentives, as well as implementing schemes and programmes for promotion and development of these enterprises.

Entrepreneurship development and training is one of the basic steps for the first generation entrepreneurs in particular. The EDPs aim to create new entrepreneurs by cultivating their latent qualities of entrepreneurship and enlightening them on various aspects necessary for setting up micro and small enterprises. Besides, skill development programmes (SDPs) and entrepreneurship-cum-skill development programmes (ESDPs) are also being organized through different formats. . This helps entrepreneurs in the establishment and management of the new enterprise, in dealing with various procedural and legal hurdles as well as in completion of various formalities required for setting up and running of the enterprise, etc.

Entrepreneurship Development Programmes (EDPs) of various durations are being organized on regular basis by a number of organizations, such as :

1. National and State level Entrepreneurship Development Institutes (EDIs);
2. Micro, Small and Medium Enterprises Development Institutes (MSMEDIs)
3. National and State level Industrial Development Corporations, Banks and other training institutions/agencies in private and public sector.

4. 'Rajiv Gandhi Udyami Mitra Yojana (RGUMY)' has been launched to provide handholding support and assistance to the potential first generation entrepreneurs, who have already successfully completed EDP/SDP/ESDP or vocational training from ITIs, through the selected lead agencies, like 'Udyami Mitras'
5. PMEGP –Prime Minister Employment Generation Programme has been supporting debt financing which is another critical input for the promotion of MSME. It is a part of the priority sector lending policy of the banks.

Other schemes and policies are also undertaken to provide requisite finance to such enterprises.

(b) Supporting measures by Government for small and medium enterprises :

- ❖ **Micro, Small and Medium Enterprises Development Act, 2006** has been enacted to facilitate the promotion and development as well as enhance the competitiveness of micro, small and medium enterprises and for matters connected therewith or incidental thereto. Such as, the establishment of specific funds, notification of particular schemes/programmes, progressive credit policies and practices, preference in Government procurements to products and services of these enterprises, following more effective mechanisms for mitigating their problems, etc. It provides the first-ever legal framework for recognition of the concept of 'enterprise' which comprises both manufacturing and service entities. Under the Act, three tiers of enterprises, namely 'micro, small, and medium' have been defined for the first time.
- ❖ The Ministry of Micro, Small and Medium Enterprises has been implementing the 'Scheme of Surveys, Studies and Policy Research' with a view to regularly/periodically collect, from primary, secondary and other sources, relevant and reliable data on various

aspects and features of micro, small and medium enterprises (MSMEs) engaged in manufacturing and services as a composite group or specific segments thereof.

- ❖ **The progressive de-reservation of products** in the MSMEs aimed at providing opportunities for technological up gradation, promotion of exports and economies of scale, with a view to encourage modernisation and enhance competitiveness in the sector. As on 13 March 2007, 125 items were de-reserved. As on 8th February, 2008, 79 items more were de-reserved. At present, the total number of items reserved for exclusive manufacture in the micro and small scale sector is 35.
- ❖ The National Manufacturing Competitiveness Programme (NMCP) has been launched to provide support to the manufacturing sector, particularly small and medium enterprises sector, in their endeavour to become competitive. It consists of 10 components and programmes as the initiatives for development and promotion of MSMEs.
- ❖ **The Credit Linked Capital Subsidy Scheme (CLCSS)** which was launched to facilitate technology up gradation by upfront capital subsidy to MSME, on institutional debt finance availed by them for modernisation of their production equipment and techniques in specified sub-sectors/ products approved under the Scheme.

4. HURDLES IN UPLIFTMENT OF MSME

MSMEs continue to encounter several challenges related to Finance, Operations, Marketing, Infrastructure, Technological and Legal aspects.

5. FINANCIAL REQUIREMENT OF MSME

MSME unit cannot be established without monetary support. The financial requirement of MSME's can be classified into the following types:

1. Long and medium term loans are provided by

Financial	Operations/Marketing	Infrastructure & Technological	Legal
Restricted access to organized finance.	It is difficult to sell the output at reasonably profitable prices and cannot spend much on advertising, marketing research, etc.	Inadequate infrastructural facilities.	Multiplicity and procedural complexity of labour laws
Collateral Issue – Unavailability of collaterals or unwillingness to mortgage family owned assets	Inability to procure cost efficiency for the purchase of machinery, equipment and raw materials as well as for meeting day-to-day expenses.	Challenge in recruiting motivated, skilled managerial and technical personnel.	No mechanism for quick revival of potentially viable sick units
High Interest cost	Problems of storage, designing, packaging and product display.	Lack of technical expertise	Unavailability of Credit Rating Agencies.
High cost of raising funds.	Problems in supply to government departments and agencies	Reluctant to adopt modern methods.	Complex taxation procedures
Non-availability of adequate and timely credit	Intense competition from large firms.	Lack of access to global markets	No grievance redressal mechanism

Numbers of Banks, State Financial Corporations, SIDBI, and State Industrial Development Corporations. This type of financing is needed to fund the purchase of land, construction of factory building and for purchase of machinery and equipments. Term loans are secured against mortgage of assets such as land, buildings, machines and other stocks.

2. The short term loans or working capital used for the purchase of raw material and consumable, payment of wages and other immediate manufacturing and administrative expenses.
3. Risk capital refers to funds used for high risk,

Sl.No.	Type of Finance
1.	Long and Medium term loans
2.	Short term loan or Working Capital
3.	Risk Capital
4.	Seed Capital Or Marginal Money
5.	Bridge Loans

high reward investment. Such capital can either earn spectacular returns over a period of time. Diversification is key for successful investment of risk capital. In the context of venture capital, risk capital may also refer to funds invested in a promising start up.

4. Seed capital refers to initial capital which is used to start a business. Seed capital often comes from the company founders personal assets or from friends and family. The amount of money is relatively small as business is still at a conceptual and pre-revenue stage.
5. Bridge loans is a short term loan that is used until a person or company secures permanent financing or removes an existing obligation. This type of financing allows the user to meet the current obligations by providing immediate cash flow. This is a short term loan (up to one year) with relatively high interest rates. It is also known as interim financing, gap financing or a swing loan.

MSMEs require timely and adequate capital mix

- ❖ Term loans and working capital loans,

particularly during the early and growth stages.

- ❖ Retained earnings, funding through sale of assets.
- ❖ Ancestral capital, personal savings, loans from relatives, loans from unregulated market.
- ❖ Institutional financing from scheduled commercial banks.
- ❖ Venture capital funds/ seed funds Among the formal financial institutions, commercial banks constitute the largest source of financial assistance for the MSME sector at about 87% as of 31st March 2011.

TOTAL DEMAND OF FINANCE

*In INR TRILLION

*SOURCE- MSME CENSUS, SIDBI



6. GOVERNMENT EFFORTS TO STRENGTHEN MSME FINANCING

MSMEs are the engine of India’s economy. Despite all the positive development, there is still a huge demand supply gap in the financial sector.

Financial assistance in India for MSME’s is available from various institutions.

(a) Some of the main institutions are :

Traditionally banks have been the largest source of funds for the MSMEs. Banks in India have had a conservative ecosystem, being risk averse the credit has primarily been extended against collateral. With the strong focus on promoting the MSME sector and supporting their functioning by timely capital

SIDBI	Small Industries Development Bank of India. (refinance and direct lending)
SFC	State level Financial Corporation e.g. Delhi Financial Corporation.
NSIC	National Micro, Small and Medium Enterprises.
DIC	District Industry Centre.
Co-op Banks	Commercial/Cooperative Banks

availability, easy access to credit, providing necessary advisory assistance and technology infrastructure, the MSME’s are heading for an unprecedented growth in the years to come. To take care of the financial challenges the government has put in a few efforts:

- ❖ A cluster based lending within the identified geographies and building distribution capabilities to create a Direct to Customer model.
- ❖ Development a unique mix of product offerings that aim to solve various financing needs both for long term and short term requirements.
- ❖ Offer both ‘Secured’ and ‘Unsecured’ loans’
- ❖ Funding for working capital gaps are available via various credit lines like bill discounting, traditional bank overdraft, securitization of receivables, working capital term loan, factoring finance and short term trade finance.
- ❖ For export business owners, there are pre-shipment and post-shipment credits available to take care of the foreign exchange exposure against receivables.
- ❖ For capital expenditure (capex) and long term expansions, banks and NBFCs offers collateral based term loans (Loan against Property) and operating/financial lease options.

If MSME’s are looking at equity based funding then Venture Capital is highly required,

- ❖ Private Equity (PE) funds for higher ticket size requirements
- ❖ Access to funds through SME Exchanges.

(b) Single Window Scheme, for the establishing MSME units:

For establishing MSME units in India Government of India has launched Single Window Scheme.

Under this scheme only one agency is required (either bank or financial institution) to fund both the term loan and working capital. This scheme applies to all MSME projects with project cost upto Rs 5 million.

This working capital loan is secured against:

1. Pledging of stocks, finished goods & raw materials,
2. Advance against work in progress,
3. Advance against bills.

A formal application is to be made to avail loan from financial institution and commercial banks.

The documents required to be provided with loan application are:

- a. Balance Sheet and Profit Loss Statement for last three consecutive years of firms owned by promoters.
- b. Income Tax Assessment Certificates of Partners/Directors.
- c. Proof of Possession of Land/Building.
- d. Architects estimate for construction cost.
- e. Partnership deed/Memorandum and Articles of Associations of Company.
- f. Project Report.
- g. Budgetary Quotations of Plant and Machinery.

A sanction or rejection letter is issued by bank after its assessment of the application.

After receiving a sanction letter applicants need to indicate in writing their acceptance of terms and conditions laid down by Financial institution/ Banks.

Loan is disbursed according to the phased implementation of the project.

Allocation of Rs 3,300cr to MSME sector by Government of India in Union Budget 2015

As MSME was facing constraints in accessing credit facilities and keeping it in mind Government has earmarked over Rs 3,300 crore in current year Budget. It is the highest allocation in the last three financial years, to develop the MSME sector and is implementing a special programme to develop its infrastructure.

Micro, Small and Medium Enterprises (MSMEs) accounted for over 37 percent of the GDP and over 42 percent of total exports,

- ◆ MSME in accessing credit facilities. Government has allocated Rs 2,700 crore, Rs

2,835 crore, Rs 2,977 crore and Rs 3,327 crore for the 2011-12, 2012-13, 2013-14 and 2014-15, respectively.

Rupees (in Crores) Allocated by Government for MSME's



- ◆ Market development assistance, Interest Subsidy Certificate Scheme and Credit-Linked Capital Subsidy Scheme, are among the programmes being implemented for MSMEs sector.
- ◆ Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE):
- ◆ The Ministry of MSME, Government of India and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) with a view to facilitate flow of credit to the MSE sector without the need for collaterals/ third party guarantees. The main objective of the scheme is that the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed.
- ◆ The Credit Guarantee scheme (CGS) seeks to reassure the lender that, in the event of an MSE unit, which availed collateral- free credit facilities, fails to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the lender up to 85 per cent of the outstanding amount in default.
- ◆ The CGTMSE would provide cover for credit facility up to Rs. 100 lakh which have been extended by lending institutions without any collateral security and /or third party guarantees. A guarantee and annual service fee is charged by the CGTMSE to avail of the guarantee cover. Presently the guarantee fee and annual service charges are to be borne by the borrower.

- ◆ The Government has proposed to revise the investment limit to classify MSME, considering the increase in the price index and cost of input, which are the indicators of inflation and have invited comments from stakeholders in this regard.

(c) **Financial Support of USD 500m by World Bank :**

- ❖ World Bank approves USD 500 m loan for Indian MSMEs. The Project will support MSMEs through direct financing by the Small Industries Development Bank of India (SIDBI) and Participating Financial Institutions (PFIs).

7. CONCLUSION

In India, there is steady growth in MSME sector since last few years. Initiative taken by Government to boost MSME through various support schemes. The present government's initiative of "Make in India", and its emphasis upon increasing the share of the Manufacturing Sector in the Gross Domestic Product (GDP) from the present 14-15% to 25% by 2022, have the potential of transforming the sector to scale steep heights. The schemes of the government of India, such as "Digital India" and "Skill India", are implemented to boost entrepreneurship and skill development, thus contributing to employment generation.

The role of MSME is rapidly growing and changing as per changing scenario in economy. MSME's are facing several challenges. The support provided by the government though not adequate but highly needed for achieving its full potential.

The financial sector has significant role to play in expanding their reach for facilitating sustainable growth in MSME sector.

MSME's are now focussing on financial requirements and then to avail incentives and supportive measures to fulfil its requisites and reduce the barriers/ hurdles for its smooth procurement.

However the limitation of timely availability of finance still persist and there is need government to develop and implement a mechanism for availability of finance as and when required considering a prerequisites.

The complex procedure of procuring the finance needs to be simplified with strong focus on single window clearance and informing the legal standards, rules , regulations and procedures of procuring the loans beforehand in one go.

Lots of opportunities are still existing for MSME's to capitalise with the combination of different programmes and schemes, to begin & grow. With the help of different aids, entrepreneurial and government support MSME's can counter challenges and brings the economic development on fast track.

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