



## **Role of financing policies and financial institutions for micro, small and medium entrepreneurs**

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### **ABSTRACT:**

The MSME sector is a significant contributor to the Indian Economy. It has emerged as a highly vibrant and dynamic sector of the Indian Economy over the decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural and backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of National Income and wealth. MSME is a dynamic and highly contributing sector that nurtures entrepreneurial talent besides meeting social objectives including that of providing employment to millions of people across the country. A substantial body of research has established that the MSMEs face severe bank credit. MSMEs in the Indian economy, government has initiated various innovative financing policies for encouraging budding entrepreneurs to setup their units. The researcher tries to analyze the contribution of SIDBI in the growth of MSME sector. It has been observed that in promotion and growth of MSMEs. The present research paper reveals that SIDBI is playing a very important role in promotion of MSME sector through this scheme.

### **Keywords:**

Financial Institution, MSME, SIDBI, CGTMSE

### **INTRODUCTION:**

MSMEs are defined in different ways in different parts of the world. In some countries, they are defined in terms of assets, while few countries use employment as a parameter for defining MSMEs. The MSME sector is responsible for about 40 per cent of the exports and 45 per cent of the total manufacturing output of the country (MSME

Annual Report, 2012). The MSMEs also have a vital role in the dispersal of industries and generation of employment opportunities. The main advantage of this sector is that it provides a large employment at a low capital cost.

In the last few years, the MSME sector has reflected a higher growth compared to the overall industrial sector. In India too, the role of MSMEs is crucial in the overall industrial growth. In the last few years,

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Quick responsiveness, adaptability and innovative approaches in the recent years, this sector has shown a commendable endurance to survive the effects of recession. MSMEs are a fundamental part of the economic fabric in developing countries, and they play a crucial role in furthering growth, innovation and prosperity. Both governments and various industrial promotion and support institutions are making considerable efforts to facilitate the process of emergence of new. Entrepreneurs for setting up enterprises in small scale sector. These efforts involved. Making attractive schemes for availability of finance and various other assistances. including technical knowhow, training, sales, purchases, etc. It is believed that these. Efforts have made a favorable impact on the growth of these enterprises in the State as well as in the region.

**OBJECTIVES:**

- To analyze the contribution of MSMEs in Indian economy.
- To analyze the role of Credit Guarantee Schemes in facilitating the credit flow to MSME sector
- To analyze the role of SIDBI in promotion of Micro, Small and Medium Entrepreneurs.

Availability of bank credit without the hassles of collaterals / third party guarantees would be a major source of support to the first generation entrepreneurs to realize their dream of setting up a unit of their own Micro and Small Enterprise (MSE). Keeping this objective in view, Ministry of Micro, Small & Medium Enterprises (MSME), Government of India launched Credit Guarantee Scheme (CGS) so as to strengthen credit delivery system and facilitate flow of credit to the MSE sector. To operationalise the scheme, Government of India and SIDBI set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

The main objective 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 other objective is that the lender availing guarantee facility should endeavour to give composite credit to the borrowers so that the borrowers obtain both term loan and working capital facilities from a single agency. The Credit Guarantee scheme (CGS) seeks to reassure the lender that, in the event of a 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 50/75/80/85 per cent of the credit facility.

**METHODOLOGY :**

The study is primarily based on qualitative literature survey method. It facilitates in depth analysis of the issues related to financing policies for budding entrepreneurs. Extensive review of the literature provided useful insight about the major schemes undertaken by the government and other bodies for promoting MSMEs. The study is based on secondary data, which has been collected from various MSME Annual Reports and SIDBI Annual Reports. This methodology also helped in providing a direction to the research to an area which is apparently underexplored.

**Role of MSME in India:**

**Capitalism and socialism both are flawed economic principles which gave rise to various socio-economic problems and disturbed the old structure of the society.** Political thinker Pandit DeendayalUpadhyaya visualized the evil impact of copying the western model of economic

development where wealth maximization is the only objective and therefore he gave the principle of Deendayal Ji emphasized on decentralization as an alternative to skewed development and he was of firm belief that this would not only increase the productivity but improve the capital formation also. According to Pandit Deendayal, decentralization promotes enterprise of the individual and motivates individual to save for capital formation which is needed badly in a capital scarce country like ours. The government understood the necessity to promote the manufacturing sector for job creation as well as balancing the lopsided development achieved on the back of service sector growth. **Revival of Medium, Small and Micro Scale Enterprises (MSMEs) is part of Make in India dream and success of PM's dream project is highly dependent on contribution of MSMEs.** Let us see the various aspects of MSMEs in Indian economy and way ahead for their revival.

**Role of SIDBI:**

SIDBI was established in April 1990 under an Act of Parliament as a wholly owned subsidiary of Industrial Development Bank of India and as the principal financial institution for the following three-fold activities:

- Financing the small scale sector by providing.
  - i. Indirect assistance to primary lending institutions (PLIs).
  - ii. Direct assistance to small scale units; and
- Promoting small industries through development and support services.
- Coordinating the functions of other institutions engaged in similar activities.

The present section of the paper, however, mainly concentrates on financial aspect of SIDBI in promoting entrepreneurship in India in general and Assam in particular.

**CREDIT GUARANTEE FUND TRUST FOR MICRO AND SMALL ENTERPRISES (CGTMSE) :**

Bank extends loan facilities for the budding entrepreneurs. But usually one has to face the problems of Collateral or third party guarantee in order to avail credit from banks. Realizing this constraint, Government of India and SIDBI started with a trust known as Credit Guarantee Fund Trust in year 2000. This trust runs a scheme known as Credit Guarantee Fund Trust for Micro Small Enterprises. Under this scheme, loans are provided to the budding entrepreneurs without the hassles of collateral or third party guarantee. The purpose of this scheme is to strengthen the credit flow to the MSME sector and encourage the entrepreneurs to achieve their dreams. The main objective is that the leader should give importance to project viability and secure the credit facility purely on the primary

security of the assets financed. The Credit Guarantee scheme assures the lender (Bank) that, in case the MSE unit which has availed collateral free credit from the lender fails to pay back the amount, the trust will make up for the losses to the bank. The trust will compensate up to 75% to 85% of the losses depending upon the gender of the entrepreneur who availed the credit and the region to which he/she belongs. A maximum credit cap of Rs 100 lakhs (Rupees Hundred lakhs only) are eligible to be covered under this scheme.

### **Role and Steps taken by RBI for the Development of SSI Sector:**

Credit to SSI sector is monitored periodically by Reserve Bank of India, Department of SSI and National Advisory Committee of SIDBI, State Level Bankers Committee and District Level Coordination Committees of the Bank.

- a. The Central Government on the recommendation of RBI has raised the investment limit for SSIs from Rs.60 lakhs to Rs.300 lakhs and for tiny units from Rs.5 lakhs to Rs.25 lakhs.
- b. Public sector banks have been advised to make it operational more specialized SSI branches at centers where there is a potential for financing many SSI borrowers.
- c. To extend 'Single Window Scheme' of SIDBI to all districts to meet the financial requirements (both term loan & working capital) of SSIs.
- d. With a view to moderating the cost of credit to SSI units, banks are advised to accord SSI units with a good track record the benefits of lower spread over the Prime Lending Rate.
- e. In order to take expeditious decision on credit proposals of SSI units, banks have been advised to delegate enhanced powers to the branch managers of the specialized SSI branch so that most of the credit proposals are decided at the branch level.

### **Initiatives Announced :**

#### ***a) Launching of A New Credit Insurance Scheme:***

Inability to provide adequate security to banks and low recovery are often sighted as major constraint in flow of investment credit of SSI units. The problem is more acute for export oriented and tiny sector enterprises. To alleviate this problem, a new credit insurance scheme has been launched.

#### ***b) Enhancement of Limit of Composite Loan Scheme:***

The composite loan scheme of SIDBI and commercial banks is designed to ease operational difficulties of the small borrowers by providing them term loan and working capital through a single window. The limit for composite loans currently at Rs. 2 lakhs has been enhanced to Rs. 5 lakhs.

#### ***c) Enhancement of Limit of Working Capital:***

For SSI units the working capital limit is determined by the banks on the basis of simple calculation of 20% of their annual turnover. The turnover limit for this purpose has been enhanced from Rs. 4 Crores to Rs. 5 Crores.

### **High Level Committee for Credit (Kapur committee):**

In December 1997, RBI appointed a One-Man Committee under the Chairmanship of Shri S.L. Kapur, former Secretary (SSI), Government of India, to suggest measures to improve the delivery system and simplify the procedures for credit to small scale industrial sector. The Committee submitted its report to RBI on 30th June, 1998. The committee made 126 recommendations out of which RBI has already accepted 40 recommendations for implementation. Some of the major recommendations of the Committee are:

- Special treatment to smaller among small industries;
- Enhancement in the quantum of composite loans;
- Removal of procedural difficulties in the path of SSI advances;
- Sorting out issues relating to mortgages of land including removal of stamp duty and permitting equitable mortgages;
- Allowing access to low-cost funds to Small Industries Development Bank of India (SIDBI) for refinancing SSI loans;
- Non-obtaining of collaterals for loans up to Rs.2 lakhs;
- Setting up of a collateral reserve fund to provide support to first party guarantees;
- Setting up of a Small Industries Infrastructure Development Fund for developing industrial areas in/around metropolitan and urban areas;
- Change in the definition of sick SSI units;
- Giving statutory powers to State Level Inter-Institutional (SLIIC);
- Setting up of a separate guarantee organization and opening of 1,000 additional specialized branches; and
- Enhancement of SIDBI's role and status to match with that of National Bank for

Agriculture and Rural Development (NABARD).

### **CONCLUSION:**

The study reveals that there is a vast prospect for developing nations to harness the opportunity by developing MSME sector. The study further identifies the policy changes necessary for enhancing the role of MSMEs. This study concludes that the MSMEs with effective use of networks, associations and government supports become more sustainable and make a greater contribution to the economy. Policy measures such as a loan guarantee scheme, microfinance fund and credit register should help to mitigate the adverse effects of recession somewhat, but it is clear from the extensive literature review presented here that challenges will remain in the medium term. Literature reveals that across countries, banks perceive serving MSMEs as a profitable endeavour and almost all banks have MSME clients. Though, there is significant difference in exposure, lending practices, business models, drivers and obstacles of MSME finance for banks operating in developed vis-a-vis developing countries. Different studies have indicated that MSMEs act as an engine for growth of any economy and their role in the development of nation cannot be overlooked. The study reveals that there has been a drastic increase in the number of MSME units over the last ten years. The employability of the MSME sector has also increased tremendously and it has now become the second largest employer after agriculture. More steps are to be taken to popularize this movement to make the people aware of the advantage, scope and programmes of MSME Act. Thus we can face the problem of poverty and unemployment by promoting MSMEs, supplementing it with government support in its managerial, technical and financial requirements and popularizing the same among the masses.

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