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# Financing to Small Scale Industries in India

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**KEYWORDS :**

Industrialization is an ongoing process which accelerates economic growth and induces social change (Noemi Levi-Orlik, 2009). The process of socio economic changes is an intrinsic part of human civilization. Man has been striving ceaselessly to discover the secrets of nature and thereby benefit immensely in creating peaceful, rich life for himself and his fellow beings. Man has been benefitted by agricultural, industrial and information activities Industrialization is one of the important means to usher in an economic and social transformation in the developing countries. More so, when agriculture alone cannot sustain the burden of the population growth, it is the Industries and service sectors which have to shoulder the responsibility to sustain as well as, at the same time, accelerate the pace of growth. It is indispensable for survival and growth Industrialization results from the interactions of technological change, innovation, entrepreneurial growth, specialization and trade. Good transportation and an efficient communication systems and an educated work force help promote the rapid development of industries. Well defined rules reduce the costs of transactions as specialization increases and economy becomes complex.For centuries, small enterprises have been playing pivotal role in economic development. In the post-independence period small industry has made spectacular progress in India. With this progress, several challenges have been thrown up which need to be met promptly & effectively .The industrial policy resolution 1956 puts forth arguments in favour of small scale industries units.

As India is predominantly an agricultural country, a proper development of Small scale units is important for the healthy growth of our country. Villages and small industries in their different aspects are an integral and continuing element both in the economic structure and in the scheme of nation planning Development .In India socio-economic factors affecting small scale industries came to be noted during industrial revolution with notion of entrepreneurial importance gaining favor by mid twentieth century. It has been primarily during the past two decades that attempts to design programmes to promote Small scale units sector as part of national development plans have been implemented. India was the first among the developing countries to have assigned a significant role to small scale industries right from the first five year plan itself. The small scale sector has attracted so much attention not only from industrial planners to economists but also from sociologists, administrators and politicians. It is a matter of pride that India has a distinct position of its own among the developing counties particularly in the order of small scale industries. India has a vast reservoir of scientific and technical manpower occupying third position in the world as far as the technical manpower is concerned .Worldwide, Small scale units have been recognized as economic growth. In India, Small scale units account for almost 40% of total industrial production, 95% of the industrial units and 34% of the exports. They manufacture over 6000 products, ranging from handloom sarees, carpets & soaps to pickles, papads and machine parts for large industries. It is estimated that an investment of Rs. 10 lakhs in fixed assets in the small sector produce goods or services worth Rs. 46.2 lakhs with approximate value addition of 10% points. In 2003-04 the contribution of SSI sector alone to GDP was 6.71% in the last decade, the growth rate of SME has been consistently higher than the overall growth rate of the industrial sector and crossing the 12% mark in the terminal year of the 10th plan.

**Importance of financing to the SSI units**

Small is beautiful, so also small scale industries. It is a significant segment of Indian economy (Seema S Waghela, 2013). The basic objective underlying in the development of small and medium industries are the increase in the supply of manufactured goods, promotion of capital formation, development of indigenous entrepreneurial talent and skills and creation of employment opportunities (Bhattia and GS Batra, 2007). In addition, they include such socio economic goals as the decentralization and disbursable of any manufacturing activities from metropolitan to urban, semi-urban and rural areas, the reduction of regional economic imbalances within the country and diffusion of entrepreneurial and managerial abilities and skills as well as technology through-out the country. The small scale industries have been experiencing major turnaround in the post liberalization period with the growth rate hovering 15% which is higher than large scale industries (George Mathew, 2010). In labour abundant capital scare country like India, small scale industries have come to occupy significant position in the planned industrialization of the economy. Most small scale industries have low capital intensity and high potential for employment generation besides possessing location flexibility which serve an effective instrument for achieving a wide disbursal industrialization (Adhinarayanan (2014). Apart from this, small scale enterprises are the beehive of entrepreneurship, innovation, growth and development. Of late, Asian industries have adopted deliberate policy of promoting and encouraging small enterprises as a strategy for the accelerated industrialization. India too has given highest priority for fostering the development of small sectors. Small scale enterprises are no long longer fighting local battle but global war (Mahesh Shankarrao Halale, 2011). In such global competitive scenario, small enterprises may emerge victorious by changing the tactics of war-fare. To enable small scale enterprises to succeed and excel, it is necessary to provide basic tool and techniques of modern management for which it needs timely credit, financial services from various financial institutions. To enable small scale enterprises to succeed and excel, it is necessary to provide basic tool and techniques of modern management for which it needstimely credit, financial services from various financial institutions. This paper summarizing the various financing schemes by major financial institutions in India.

**Result & Discussion**

Finance is the life blood of the any enterprise. At the time of setting up their units, small entrepreneurs need to know very clearly about the finance requirement for the purposes. Generally entrepreneurs face the financial problem while starting and running the SSI units. Given the shortage or lack of entrepreneurs' own fund or sources, the government of India as a part of its policy of promotion of small scale sector in the country has set up a host of institutions to meet their financial requirements. The introduction of Credit Guarantee Scheme in 1960 is a tonic in the field of bank finance to SSI units. Further RBI set up a Nayak committee to study about the adequacy of institutional credit SSI. The Nayak Committee recommended a desirable norm of 20 per cent of the value of production to be made available of working capital through Term-Loan by financial institutions and commercial banks[1]. Based on this recommendation, RBI opened door to commercial bank to lend the finance to SSI units in India.

Business enterprises can reach its full potential of growth and success with adequate finance. Therefore finance is rightly described as the lifeblood of industry. Even though the development of Small scale industries depends upon various factors like availability of raw-material, skilled labour, advanced technical know-how adequate, easy and cheap finance and right type of management, the finance is crucial in the development of small scale industries. Non availability of finance at the right time and adequate amount with low rate of interest is a serious threat to the development of small scale industries. The small scale industries main sources of finance are promoters, formal financial institutions and local money lenders or informal financial institutions. Generally small scale industries promoters' investment in their organization is lesser only because of their poor financial background, like that informal financial sources are reluctant to give finance assistance due to small scale industries earning capacity is limited. Hence the small scale industries mainly depends on the formal financial institutions like commercial banks, regional rural banks, small industries development corporation both state and nation, the industrial development bank of India (IDBI), small industries development bank of India (SIDBI), National Bank for Agricultural and Rural Development (NABARD), State Financial Corporation's (SFCs) and other national level development banks. These financial institutions financing to the SSI by way of refinancing to the banks and further the Deposit Insurance and Credit Guarantee Corporation (DICGC) is giving guaranteeing advance to the SSI.

**Commercial Banks**

Prior to the nationalization of banks in India, whole banking system was built in such a way as to cater to the financial needs of a particular class like traders and big industrialists, further the commercial bank branch network has an urban-bias with consequent inadequate coverage in the rural areas. But in 1967, the idea of socialization of bank lending was introduced, under social control over bank. The main aim was to assist the hitherto neglected sectors of economy such as small scale industries and agriculture. But the mere issue of guidelines did not make the desired impact on the deployment of bank credit. Consequently, nationalization of 14 major banks in 1969 and again on 1980s six more private sector banks were further nationalized to extend the area of control over the banking system in the country. Outcome of this are priority sector got more lending from these banks. The priority sector includes agriculture, small scale industry, industrial estates, transport operators, retail & small business, professionals & self-employed persons, education and house loans to weaker sections.

Commercial banks, including RRBs, are the most important source of finance for SSIs. In the modern banking world, the bankers now-a-days granting both long and short-term loans to the small scale industries. They also extend credit both on easy and concessional terms with regard to rate of interest, margin and security. Though their involvement is mainly by way of working capital advances, their support by way of term loans is also significant. Some of the commercial banks have opened specialized branches to cater to their credit needs of SSIs and they have also extended sizeable credit under various schemes. The commercial banks in India granting finance to the SSI units through the following schemes.

**Terms Loans**
**Long and Medium**

Traditionally commercial banks have been financing to the working capital requirement of the industries and in recent times they are financing long term industrial finance too to the industries. Commercial banks granting finance to the SSI units for acquiring fixed assets, constructing factory, purchasing machineries, expansion and modernization of business.

**Short term loan**

Commercial banks provide finance to the SSI for purchasing and maintaining raw materials and to meet and maintaining day to day expenses. Short-term finance provided by the commercial banks in the form of cash credit, bills discounting, loan against book dept, letter of credit facility and pre-shipment and post-shipment credit.

Apart from the above credit schemes, in the modern world all commercial banks have designed specialized schemes for SSI in their service area for example State Bank of India is introduced entrepreneur scheme and special scheme for financing craftsman and artisans to meet all type of credit needs of the SSIs.

**Commercial Banks performance**

In earlier period commercial banks in India are not inclined to financing these SSI units since they are considered that financing to the SSI units were more risky. However, after nationalization of banks in 1969 and instruction from the Reserve Bank of India (RBI), commercial banks increased year to year to financing to the SSI units. The Table No. 1 present the commercial banks advances to SSI units in India during the study period.

**Table 1**
**Commercial banks Advances to SSI in India**
**(Rs. In Crore)**

| Year | Public Sector Banks | Private Sector Banks | Foreign Banks | All Scheduled Commercial Banks |
|---|---|---|---|---|
| 2004-05 | 67800 | 8592 | 6907 | 83498 |
| 2005-06 | 82434 | 10421 | 8430 | 101285 |
| 2006-07 | 102550 | 13136 | 11637 | 127323 |
| 2007-08 | 151137 | 46912 | 15489 | 213538 |
| 2008-09 | 191408 | 46656 | 18063 | 256127 |
| 2009-10 | 278398 | 64534 | 21069 | 364012 |
| 2010-11 | 376625 | 87857 | 21461 | 485943 |
| 2011-12 | 396343 | 110514 | 21760 | 528617 |
| 2012-13 | 502459 | 154732 | 30020 | 687209 |
| 2013-14 | 615976 | 200138 | 30020 | 864135 |

**Source: MSME Annual Report 2014-15**

From the Table 1 it can understood that from the beginning of the study period public sector banks have been providing huge amount of finance to the SSI than private and foreign banks. In the study period public sector banks credit to the SSI units has increased from INR 67800 crores to INR 615976 crores. This increase is almost ten times in ten years. Like that private sector banks credit to the SSI units has increased from INR 8592 crores to INR 200138 crores and Foreign banks credit to the SSI units INR 6907 crores to INR 30020 crores. The year to year wise growth of credit to SSI has presented in the Table 2.

**Table 2**
**Year on Year growth Outstanding Bank Credit to SSI units**

| Year | Public Sector Banks | Private Sector Banks | Foreign Banks | All Scheduled Commercial Banks |
|---|---|---|---|---|
| 2004-05 | - | - | - | - |
| 2005-06 | 21.6 | 21.3 | 22.1 | 21.3 |
| 2006-07 | 24.4 | 26.1 | 38.0 | 25.7 |
| 2007-08 | 47.4 | 257.1 | 33.1 | 67.7 |
| 2008-09 | 26.6 | 0.0 | 16.6 | 19.9 |
| 2009-10 | 45.4 | 38.3 | 16.6 | 42.1 |
| 2010-11 | 35.3 | 36.1 | 1.9 | 33.5 |
| 2011-12 | 5.24 | 24.79 | 1.05 | 8.77 |
| 2012-13 | 26.71 | 40.01 | 37.95 | 30.00 |
| 2013-14 | 22.59 | 29.35 | 0.01 | 23.13 |

**Source: MSME Annual Report 2014-15**

**State Financial Corporation (SFC)**

In India, Industrial Finance Corporation of India (IFCI) has been granting finance to medium and large scale industries but it ignored the financing of SSI sector. Hence government of India thought of creates another stratum of institute exclusively for the purpose and outcome of this State Financial Corporation (SFC) was established by passing SFC bill. In pursuance of the SFCs Act, 1951, SFCs were set up mainly to finance small medium size enterprises. The operations of SFC are restricted to the state level; hence each state has one SFC to assists small scale units for their modernization and technical up gradation by granting soft loans, bring around the sick small scale units through rehabilitation schemes and through equity type of assistance. The SFCs main sources of funds are bonds & debenture, share capital, borrowings from RBI, refinancing from IDBI and state government contribution.

**Functions and Schemes in SFC**

The main functions of the SFC are, granting long term loan for purchasing and installing the fixed assets like machinery, Building and land. Further guaranteeing loan raised from capital markets, commercial banks and cooperative banks. Underwriting function and guaranteeing the deferred payments of SSIs. Apart from this some special schemes like composite loan scheme, scheme for physically handicapped entrepreneurs, single window scheme, special scheme to SC/ST people enterprises, women entrepreneur scheme, Mahila Udayam Nidhi Scheme and self-employment scheme for young entrepreneurs.

**Financial Performance of SFC**

Since from establishment of SFC in 1951 have been assisting the SSI sector under various schemes. Further SFC is operating under two level in total for India State Financial Corporation and each state separate state financial corporation is existed for example in Karnataka SFC termed as KSFC (Karnataka State Financial Corporation). The SFC financial assistance sanctioned and disbursed are given in Table No. 3 from 1990-91 to 2014-15.

**Table 3**
**Financial Assistance Sanctioned and Disbursed by SFC in India Rs in Billion**

| Year as on March | India | | Karnataka | |
|---|---|---|---|---|
| | Sanctions | Disbursements | Sanctions | Disbursements |
| 1990-91 | 18.64 | 12.71 | 24651 | 19071 |
| 1991-92 | 21.90 | 15.37 | 34206 | 24634 |
| 1992-93 | 20.15 | 15.57 | 33625 | 33625 |
| 1993-94 | 19.09 | 15.63 | 35477 | 31001 |
| 1994-95 | 27.02 | 18.81 | 52018 | 43209 |
| 1995-96 | 41.89 | 29.61 | 81881 | 61263 |
| 1996-97 | 35.45 | 27.83 | 85984 | 64946 |
| 1997-98 | 26.26 | 21.10 | 57736 | 46956 |
| 1998-99 | 18.64 | 16.25 | 37196 | 35897 |
| 1999-00 | 23.95 | 18.43 | 34026 | 29849 |
| 2000-01 | 29.11 | 19.79 | NA | NA |
| 2001-02 | 22.10 | 17.50 | 30371 | 29242 |
| 2002-03 | 18.56 | 14.54 | 34067 | 26828 |
| 2003-04 | 11.34 | 8.57 | 30277 | 24880 |
| 2004-05 | NA | NA | 24287 | 24034 |
| 2005-06 | NA | NA | 31620 | 19986 |
| 2006-07 | NA | NA | 42453 | 21039 |
| 2007-08 | NA | NA | 36815 | 30313 |
| 2008-09 | NA | NA | 56524 | 38392 |
| 2009-10 | NA | NA | 57000 | 43000 |
| 2010-11 | NA | NA | NA | NA |
| 2011-12 | NA | NA | NA | 67515 |
| 2012-13 | NA | NA | NA | 90926 |
| 2013-14 | NA | NA | NA | 94406 |
| 2014-15 | NA | NA | NA | NA |

**Source: Indiastat.com** **Note : NA- not available**

From the Table 3 it can understood that the amount of sanctioned is showing that fluctuating trend. Further this table shows that in the entire period under study disbursed amount is less than the sanctioned amount. It call that SFC should disburse the amount equal to the sanction amount, which may leads to assist more number of SSI units. State Financial Corporation is operating their business from respective state. Since this study is concerned with Karnataka state, it is necessary to view the financial assistance by the Karnataka State Financial Corporation (KSFC). Further the Table 3, the year wise sanctions and disbursements of KSFC are shown. It can be observed from the table that there is a substantial increase in the amount of sanctioned over the period. In the year 1996-97 the highest amount of INR 85984 lakhs was sanctioned and in the year 2013-14 INR 94406 lakhs was disbursed. Further this table shows that the KSFC shows more interest on development of SSI units in the state hence amount of disbursement is increasing substantially over the period and especially in recent year it has increased tremendously.

**National Small Industries Corporation (NSIC)**

The NSIC is an ISO 9000 certified company established in 1955 with the mission of promoting, aiding and fostering the growth of SSIs and industries related services in the country. NSIC provide the strength to the SSIs by promoting modernization, up gradation of technology and enhancing export project. At present in the country NSIC operates its functions through six zonal offices comprising of 26 branch offices, 15 sub-offices and five technical services center. The main functions of NSICs are, provide machinery on hire-purchase scheme to SSIs, provide equipment leasing facility, help in export of products of SSIs, help to upgrade of technology and modernization of SSIs and undertake the construction of industrial estates.

**Table 4**

Financial Assistance provided National Small Industries Corporation (NSIC) to MSME in Karnataka up to 2012-13. (Rs. in Crore)

| Particular | 2009-10 | 2010-11 | 2011-12 | 2012-13 (upto October) |
|---|---|---|---|---|
| Karnataka State | 53 | 128 | 174 | 105 |
| India | 1056 | 2348 | 3823 | 2158 |

**Source: indiastat.com**

Table 4 reveals that in Karnataka state NSIC extended financial assistance is increasing year to year in the year it was 53 crore rupees in 2009 and it is increased to 105 crore rupees in 2012 up to October.

**Small Industries Development Bank of India (SIDBI)**

- SIDBI was started in the year 1990 with the aim of cater to the needs of SSI. The SIDBI is a wholly owned subsidiary of IDBI. The National Equity fund which is earlier operated by IDBI now stands transferred to SIDBI. Now SIDBI has taken several measures to augment the flow of assistance to the SSIs the more important of which are given below.
- Enhancement of ceiling amounts under the Single Window Scheme from Rs.5 lakhs to Rs.10 lakhs and further to Rs.20 lakhs and extending the scheme to the commercial banks,
- liberalization of the scope of the National Equity Fund Scheme and the Automatic Refinance Scheme,
- Introduction of a scheme of direct discounting of bills arising out of the sale and purchase of indigenous capital equipment and machinery,
- Infrastructure support by way of direct assistance to SSIDCs, State Infrastructure Development Corporations and other State level agencies for the development of industrial areas,
- Scheme to facilitate marketing support intended to strengthen and expand the marketing infrastructure and expedite the realization of the sale proceeds of the products of the SSI sector.
- Resource support to SIDDCs and NSIC for extending raw material supply and marketing facilities to SSI units and
- Promotion of, and extending resource support to, factoring companies, jointly with banks

For the development of SSI in India the SIDBI's provide financial assistance to the SSI directly and indirectly under the various financing schemes like,

1. Direct Finance
2. Bills finance
3. Refinance
4. International Finance
5. Micro Finance
6. Risk Capital

**Industrial Reconstruction Bank of India (IRBI)**

IRBI was established in the year 1985 with an aim of assisting the revival of sick units, was replaced by replacing the Industrial Reconstruction Corporation of India (IRCI). IRBI was extent its assistance to the SSI units under various scheme such as

- Margin for additional working capital as projected in the agreed revival programme
- Need based start up expenses to cover the restarting of closed units;
- Limited capital expenditure inclusive of the installation cost to finance balancing Plant and equipment without any margin;
- Cash loss as projected in the scheme of revival.

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To sum up, there are a host of institutions and agencies extending various forms of assistance to small scale industries in the country. For ensuring the smooth, continuous and adequate flow of credit to small scale industries the financial institutions have designed a variety of schemes and programmes.

## Summary

The policy makers, Government and financial institutions are understood the importance of small scale industries role in economic development hence the the Government provide number of assisting schemes, subsidies and financial support to the SSI units development. Financial institutions concerns are bound by the rules of RBI and banking regulations Actand these acts provide financial support to the SSI units under the primary lending obligation schemes. In India number of financial institutions are existed to support the SSI units especially and these financial institutions provide long and short term financial assistance. One important points to be considered from the tables in the paper is most of the financial institutions sanctioned amount to the SSI units is less than disbursed amount. Hence the Government and other stakeholder has to imply firm policy to extent the formal financial support to the SSI unit for the development of countries economy.

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