Chapter 1

Introduction and Research Methodology
Introduction

Finance has been regarded as an important factor determining the survival, worth and growth of Micro, Small and Medium Enterprises (MSMEs) in the present day globalised competitive business environment. Easy access to finance allows industrial units to undertake productive investments to expand their businesses and to acquire the latest technologies, thus ensuring their competitiveness and that of the nation as a whole. In the developing countries like India the role of MSMEs has been widely recognized as an instrument for the economic and social development as well as balanced regional and sectorial development of any country. It is a fact that the MSME sector is a nursery of entrepreneurship development, which is often driven by individual creativity and innovation. This sector contributes around 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of exports of India. The MSMEs provide employment to about 732.17 lakh people through 311.52 lakh enterprises. The labour to capital ratio in MSMEs and the overall growth in the MSME sector is much higher than the large scale industries. The geographic distribution of the MSMEs is also very even. Thus, MSMEs are important for national objective of growth with equity and inclusion.

Entrepreneurial development is a complex phenomenon essential for wealth creation. It depends on several economic and non-economic factors such as the availability of raw material, quality of labour, technology, market potentiality, capital, natural resources, infrastructure etc. The availability of raw material and its need based supply have enlarged the economic opportunity and, consequently promote the development of entrepreneurs and the status of economy. The emergence of entrepreneurship and the promotion of entrepreneurial activity are influenced by the availability and adequate supply of qualitative labour, with varied skills. The qualitative labour of an enterprise will facilitate the division of labour and improves the skills, to augment the production and the productivity of the enterprise. This, in turn, attracts new entrepreneurs to undertake and diversify entrepreneurial activities to attain higher levels of industrial growth. The rapid development of technology also promotes the entrepreneurial development to a great extent. The recent technological innovations in India are widening in the economic opportunities and are helping to enhance the quality of entrepreneurial development. The developed technological conditions may help to reduce the entrepreneurs' risks and create the encouraging atmosphere for sustainable entrepreneurial development. The availability of sufficient capital required to sustain the
development of an industry and to meet the requirements for the expansion of industrial activities is one of the basic causes of entrepreneurial development. It is a fact that raising investment levels in the industrial sector enhances the profitability and facilitates the process of additional capital formation, which helps to sustain industrialization with increase in income and employment generation. Increasing industrialization of a country facilitates the growing entrepreneurial activities, to promote the entrepreneurial development. The availability of capital resources directly influences development of entrepreneurship. Potential market opportunities influence the entrepreneurs to undertake industrial activities in diversified fields of business. The degree of competition, the size and form of market, also influence the development of entrepreneurial activities and the skills of the entrepreneurs to lead their business operations successfully. Developed markets and expanding market opportunities create a good-natured atmosphere so as to withstand entrepreneurial development. Prospective entrepreneurs try to capitalize on the expanding avenues, opportunities and facilitate the furtherance of entrepreneurial development in any economy.

The level of profitability of an enterprise promotes the entrepreneurship growth and development. Higher levels of profits facilitate enterprises growth and expansion of its activities which induce the prospective entrepreneurs to commence various industrial units and try innovative ventures while expanding the existing industrial activities. This facilitates the entrepreneurial development while materializing the accomplishment of higher level of profits along with the development of innovative industrial activities. The growth and development of entrepreneurship acknowledged by the government through MSMEs along with agriculture, MSMEs is an important fragment of the development of Indian economy. MSMEs contribute significantly to employment generation and dispersal of industrial activity to rural and backward areas and, thereby, usher in all round economic growth by value addition, ensuring the mobilization of local capital and developing entrepreneurial skills. The MSMEs segment has become the engine of growth and development of the Indian economy in the new millennium. MSMEs supplement the large scale units by boosting economic activity and employment generation. The government is making all efforts to create conducive atmosphere, a level playing ground, and giving policy support to enable the MSMEs to achieve higher level of production, exports and employment generation to contribute significantly to nation’s GDP.
Significance of Industrial Finance

Since the first Five Year Plan, India's economic plans envisaged setting up of a wide range of industries as a crucial development strategy to achieve self-sustaining economic growth, which would require a huge capital. In developing countries like India, industries can no longer be just one-man show but have to be managed by high technological composition. Quite a lot of industrial enterprises are in dire need of modern automation and mechanization to enable them to produce better quality products at lower costs so as to sell them at competitive rates in International markets. The promotion of the industrial growth can be achieved by a much needed shift of attention from pre requisites for location of industries, problems of dispersal, infrastructure, and entrepreneurial motivation to development of management consultancy, prompt decision-making and advisory services for industries in India. All this improvement requires tremendous amount of credit to meet long, medium and short term financial needs.

In view of the importance of the development of Micro, Small and Medium enterprises, the government of India has made considerable efforts to promote its growth over the last six decades. The development strategy of small enterprises comprises formulation and pursuance of deliberate policies for its protection and development, stepping up plan allocations, evolving and implementing various programmes for its development including extension of concessional finance, both short-term and long term, through a number of supporting institutions. The State Financial Corporations (SFCs) are the important financial institutions established in different states to cater the needs of both short-term and long term financial requirements and managerial assistance of the micro, small and medium enterprises, earlier known as small scale industries in India.

Importance of Financial System

Finance is the life blood of a modern economy. Financial system helps to mobilize the financial surpluses of an economy and transfer them to areas of financial deficit. The financial system promotes savings by providing wide range of financial assets to the general public. Savings collected from the household sector are pooled together and if allocation of credit is judicious and socially equitable, it can help achieve the twin objectives of growth and social justice. In the context of relatively under developed capital market and with little internal resources, firms or economic entities depend largely on financial intermediaries for their fund requirements. In terms of sources of credit, they
could be broadly categorized as institutional and non-institutional. The major institutional sources of credit in India are commercial banks, development finance institutions (DFIs) and non-banking financial companies (NBFCs) including housing finance companies (HFCs). Financial sector of any country is a multi-faceted sector. The term, 'Financial Sector' refers to the whole gamut of legal and industrial arrangements, financial intermediaries, markets and instruments with both domestic and external dimensions.

Development finance institutions (DFIs)

Financial institutions were set up in India at various points of time starting from the late 1940s to cater to the medium and long-term financing requirements of industry. After Independence in 1947, the national government adopted the path of planned economic development and launched the First Five Year Plan in 1951. This strategy of development provided the critical inducement for establishment of DFIs at both national and state levels.

Institutional frame work

An efficient financial system is indispensable for the rapid economic growth of any country. The process of economic development is invariably accompanied by a corresponding and parallel growth of financial organizations. However, their institutional structure, operating policies, regulatory or legal frame work differ widely, and are largely influenced by the prevailing political and economic environment. Planned economic development in India had greatly influenced the process of financial development. The liberalization, deregulation and globalization of the Indian economy since the early nineties, has had important implications for the future course of development of the financial system. The liberalization, deregulation or globalisation of Indian economy had important implications for the future course of development of the sector. The evolution of the Indian financial system falls, from the viewpoint of exposition, into three distinct phases:

1. Up to 1951, corresponding to the post-independence scenario, on the eve of the initiation of planned economic development,
2. Between 1951 and the mid-eighties reflecting the imperatives of planned economic growth and
3. After the early nineties responding to the requirements of liberalized or deregulated or globalised economic environment.
Economic growth and development of any country depends upon a well-structured financial system. Financial system includes a set of sub-systems of financial institutions like financial markets, financial instruments and services which help in the formation of capital. Thus a financial system provides a mechanism by which savings are transformed into investments and it can be said that financial system plays an important role in any economic growth and development by mobilizing surplus funds and utilizing them properly for productive purpose. The financial system is channelized by the presence of integrated, organized and regulated financial markets and institutions that meet the short term and long term financial needs of both the household and corporate sector. Both financial markets and financial institutions play an important role in the financial system by rendering various financial services to the community and they can operate in much closed combination with each other.

**Indian Financial System**

- Commercial banks
- Cooperative Banks
- Financial Institutions
- Non-Financial Banks
- Public Private Foreign RRBs
- All India Financial Institutions
- Urban Co-operatives
- State Co-operatives
- All India State Level Refinance Specialised Investment Mutual Funds
- Development banks F. Institutions Institutions F. Institutions Institutions
  - IFCI
  - IDBI
  - SIDBI
  - IIBI
  - ICICI
  - SFCs
  - SIDCs
  - SSIDCs
  - DlCs
  - SIICs/SIDCs
  - Co-op.
  - NABARD
  - Exim Bank
  - IDFC
  - TFCI
  - LIC
  - UTI
  - GIC
FINANCIAL INSTRUMENTS

The important constituent of financial system is financial instruments. They represent a claim against the future income and wealth of others. It will be a claim against a person or institutions, for the payment of the sum of the money at a specified future date.

Financial services

The emerging financial system largely depends upon the quality and variety of financial services provided by financial intermediaries. The term financial services (FSs) can be defined as activities, benefits and satisfaction connected with sale of money that offers to users and customers, financial related value.

REVIEW OF LITERATURE

A Comprehensive review of literature has become an essential part of any investigation as it not only gives an idea about the work done in the past and assists in the description of problem area but also provides a basis for interpretation of findings.

Over the years, a lot of importance has been given to the development of Small Scale Industries which contribute significantly to develop industrial base in any country. Though there are some weaknesses in this sector, the sector has provided more employment opportunities and led to the utilization of local resources and indigenous technology. There are many studies focusing on its importance, its problems, marketing aspects, performance, sickness, capital or its labour intensity etc. The available relevant literature on micro, small and medium enterprises is reviewed with reference to their financial as well as other related aspects and role of APSFC in promoting the MSMEs. An attempt is made to review some of such studies here in.

Dhar and Lydall (1961) in their article “the Role of Small Enterprises in India’s Economic Development”, have expressed their doubt about the use of capital in small-scale industries. In their words ‘the small factories are actually capital intensive i.e., use more capital per unit of output than the large factories. Still small scale industries are known for their labour intensity compared to large scale industrial units. Besides, in small scale industrial units, even the semi-skilled and un-skilled workers could also be employed effectively. Hence, this industrial sector is more suitable for the labour surplus
economies. Further, the employment potential per unit of capital is more in small scale industrial sector than in larger ones.

Jain J. K (1964) conducted a study on “Institutional Financing and Development in India”. In this study the researcher examined the policies and operations of the state financial corporations with special emphasis on resource mobilisation. The study’s recommendations mainly included the payment of higher rate of dividend on equity, increased rates of interest on public deposits and advances or loans to small scale industries for repayment of debts.

Agarwal (1966) in his article “A Study of Industrial Finance in Rajasthan”, examined the role of Rajasthan Financial Corporation (RFC) in extending the financial assistance to the industries in the State. This study points out that the rejection rate of loan applications was very high because of procedural difficulties and insistence on 50 per cent of security margin. This study suggests that the measures include simplification of procedures, liberalisation of security norms and positive attitude of the officials towards the problems of entrepreneurs in obtaining finance from the corporation.

Reserve Bank of India (RBI) constituted a working group in April 1970 under the Chairmanship of Ramanujam (1972). This working group examined certain aspects of the operations of SFC and has made several recommendations which include lowering the margin money requirements in the case of technically qualified entrepreneurs, subscription to both equity and preference capital of a public company with certain safeguards, creation of a special class of share capital to assist in priority areas and besides, at present, a major portion of credit sales of small scale industry is financed under the ‘open account system’. The conversions of the volume of credit provided by banks against receivables but also ensure financial discipline on buyers as well as on borrowers. Apart from this, the banks also would be in a position to discount these bills under the New Bill Market Scheme (NBMS) of the RBI. The recommendations for minimizing the delay in payments to small scale industry are expected to strengthen the bargaining position of the small scale industrial units on the one hand, and the need to inculcate discipline in the medium and large industries as well as in government departments on the other.
The study of Chengaih Chetti (1975)\textsuperscript{7} emphasizes APSFC's role in the industrialization of Andhra Pradesh. In this, the researcher examines how the APSFC is financing the industrialization of the State with the main focus on the development of small scale industries. This study mainly confines itself to functional aspect i.e., promoting and financing of small scale industries in the state.

A study group set up by the State Bank of India (SBI) (1975)\textsuperscript{8} examined the policies and procedures of banks with regard to selection of borrowers, appraisal of proposals, assessment of credit needs besides system or follow-up as prevalent in the bank to find out the health of the units and suggest modifications, if any. The team studied 120 units (100 sick units, 20 normal units). It observed that the small scale industrial units had certain basic shortcomings such as limited resources, lack of equity, lack of management, particularly cells to train and educate the borrowers. They should also recommend improving appraisal and follow-up procedures and use of trained staff to deal with cases of sick units promptly on scientific lines.

Bhinde V.M (1976)\textsuperscript{9} found that the Industrial Development Bank of India (IDBI) constituted a working group on co-ordination between State Development Corporations (SDCs) and Banks. This working group stressed the need for speedy disposal of applications through joint appraisal by the SFCs and Banks. It was suggested that the maximum limit on the authorized capital of the SFCs should be fixed at Rs. 20 crore as notified by the Central Government on the recommendations of IDBI. This group also suggested that control of SFCs should be vested only in a Board consisting of representatives of the State Government, IDBI, RBI, Insurance Companies and Public Sector Banks.

Government of India (1977)\textsuperscript{10} also constituted a working group on Small Scale Industrial sectors with special reference to the District Industries Centers (DIC), under the chairmanship of Tambe. The group's recommendations relate to the provision of institutional finance to village and cottage industries, artisans, tiny sector units and small scale industries. These recommendations have been accepted and communicated to the commercial banks for implementation.

A High Powered Committee was set up under the Chairmanship of Puri (1978)\textsuperscript{11} the Development Commissioner (SSI), Government of India, to examine problems faced
by small scale industry with regard to bank credit. The Committee recommended that a National Equity Fund (NEF) should be set up to maximise help given to such units. It also recommended simplification of application forms, review of the repayment schedules where the unit is not able to make payments for genuine reasons, early disposal of loan applications, flexible approach towards margin requirements and collateral security etc.

Singh, S.B., (1978)\(^\text{12}\) conducted a study on "Uttar Pradesh Financial Corporation (UPFC) - A study of its Resources Mobilization and Lending Operations". This study clearly points out that the credit policy of the corporation is security-oriented and very conservative. In spite of this caution, the position of recovery of its debts was far from satisfactory. This study recommended introduction of the performance system of budgeting, establishment of development wing to undertake promotional activities, improvement of recovery performance, tapping of resources through issue of bonds and deposits and revamping of organizational structure which can respond to the increasing challenges. The UPSFC has failed to achieve the objectives of diversification of its assistance portfolio, just as it failed to register rapid and balanced industrial growth in the state.

Small Industries Extension Training Institute (SIETI) 1980\(^\text{13}\), on its paper examined the impact of concessional finance to industrial development of backward areas in Chittoor district of Andhra Pradesh State covering 130 small scale industrial entrepreneurs. As regards the under-developed areas, the study observed that the growth in the number of units and the expansion in capital intensity alone might not create the necessary impetus for growth unless considerable productivity changes were also affected through fullest capacity utilization.

Andhra Pradesh Industrial Technical Consultancy Organisation (APITCO) and Kerala Industrial Technical Consultancy Organisation (KITCO) 1980\(^\text{14}\), studied the problems faced by the industries in three states of Kerala, Karnataka and Andhra Pradesh. This study revealed the serious problems faced due to inadequacy of working capital. 69 per cent of the sample units in Kerala, 44 per cent sample units in Karnataka and 52 per cent of the sample units in Andhra Pradesh were facing the same problem of insufficient working capital. And another important problem found in the paper is marketing as 30 per cent of the sample units in Kerala were finding the difficulty of marketing.
Appa Rao. B (1981)\textsuperscript{15} conducted a study on “Small Enterprises Promotion in Andhra Pradesh: Role of Andhra Pradesh State Financial Corporation”. The study confines itself to the APSFC and is a highly commendable and incredible forerunner in the field, spreading its fragrance by awakening many researchers of South India to study different aspects of SFCs. The study highlights the performance of APSFC, since its inception, covering the period 1969-70 to 1978-79. It also examined the impact of the APSFC’s promotional role in setting up small enterprises in the State. The study is indeed a comprehensive and all-inclusive capsule on APSFC and is regarded in academic circles as a pioneering treatise on APSFC.

Ananthan (1981)\textsuperscript{16} conducted a study on “The Regional Development Banks: A Performance Evaluation”. This study indicates the areas of resource mobilization, financial operations, balanced regional development, recovery of dues and profitability. This study highlights the corporation’s failure to diversify its assistance portfolio and also its incapability of reducing regional imbalance owing to lack of infrastructural facilities in backward areas, coupled with its unsound project appraisal and mounting dues. This study has recommended the creation of special programmes to undertake corporate underwriting and guaranteeing, taking up underwriting business on consortium basis with other financial institutions.

Rama Krishna Sarma (1982)\textsuperscript{17} who studied, “Industrial Development of Andhra Pradesh”, has examined the role of the different state level institutions including APSFC in the industrial development of the state. The conclusions relating to APSFC that emerged from his study mainly include inadequate assistance to the backward districts, low disbursements ratio in the case of backward districts and financial crises of many of the assisted units in regard to their working capital. The main recommendations of the study include need for greater co-ordination between APSFC and Commercial Banks in the State and changes in the SFC Act to bring about a change in the orientation of its functions.

Chandra Prasad, (1982)\textsuperscript{18} focused on “Sickness in Small Enterprises Assisted by the APSFC” and the study covers a period of 10 years ending 1990. The syndrome of sickness in the assisted units of the Corporation is diagnosed within the broad framework of the definition of sickness chosen by SFC’s in India. The study deals with the operational performance of APSFC in financing different sectors and backward areas. It
deals with the increased growth of industrialization, the problem and incidence of sickness which is also increasing. In this context of average recovery performance of APSFC, the incidence and problem of sickness in the assisted units is greater in the small scale industrial sector, and external causes of sickness in the assisted units, attributable to shortage of working capital, raw-materials, power, droughts and floods. This study examined appreciated the performance of APSFC in terms of such parameters as growth in assets, debt-equity ratio, cost of borrowings, return on capital employed, recoveries as against collectibles, plough back, debt service coverage ratio and over dues as percentage of loan outstanding.

Bapa Rao (1982) in his study on the “Financial Institution of India with Special Reference to the A.P. State Financial Corporation”, broadly covers different financial institutions in the country like Industrial Finance Corporation of India, Industrial Credit and Investment Corporation of India and Industrial Development Bank of India in addition to the APSFC. It provides a sketch of the origin, organization and activities of the APSFC in a general way. Some of the major recommendations of the study, inter-alia, are that APSFC should ensure proper management of its activities by further strengthening and improving the organization to cope with the growing volume of operations by perfect tools of appraisal and follow up aspects.

Natarajan R (1983) study on “Institutional Finance for Small Scale Industries in Andhra Pradesh”, is a remarkable analytical work on the role of APSFC in financing small scale industries in the State. The study is based on the broad objectives of examining the trends in institutional finance to small scale industries in Andhra Pradesh. The main focus of this study is about the institutional finance deployed by APSFC and commercial banks to the small scale industries, besides the post-departmental supervision methods and their effectiveness.

Vasant Desai’s (1983) study found that the pace of industrial development depends upon the quantum of capital resources and the availability of technology. The composition of industries i.e., the relative shares of large, medium and small industries depends upon the availability of the funds required for a given line of activity. Therefore, there are certain lines of activity which are exclusively more viable for small scale rather than large scale operation. Moreover, in view of this labour absorption capacity, they are suitable for a labour abundant country like India. In a planned economic development
programme, the existence and the role of small-scale industrial sector cannot be ignored. Though the sector has normally been preferred for having more employment potentiality with relatively less capital when compared to other sector units for their own survival, it becomes necessary to use modern technology.

The study of National Institute of Small Industry Extension and Training (NISIET) (1983) reveals that, at the state level, the SFCs are providing term finance to medium and small scale industries. It is sometimes felt that SFCs have not been quite effective in financing small industries. SFC is not organized, with its few offices, to cater the needs of such small units widespread over a state. But being confined only to term lending, the SFCs may not afford the require number of offices for expeditious lending and close supervision of small scale industrial units. In any case, they cannot match the commercial banks that have a wide network of branches spreading to rural areas also. They advocate that the commercial banks may finance both term and working capital requirements of small scale industries.

Vivek Deolankar (1983) attempted a quantitative survey of entrepreneurship development in the developed, developing and backward states of India by collecting information from a sample of 264 Small Scale Units located in the states of Maharashtra, Andhra Pradesh, Karnataka and other states of India. The study found that in spite of abundant natural resources, the pace of industrial and entrepreneurial development is slow, with untapped entrepreneurial talents existing in the Country. The study suggested that timely action by the government and other agencies can accelerate the process of entrepreneurship development in India.

Jayachandran. G, Vijayalakshmi. B and Himachal D. (1984) in their study, focused on the socio-economic background and motivational factors of the entrepreneurs and their role in the development of entrepreneurship in the small scale industrial units in Tirupati Industrial Estate. They found that the entrepreneurship development and industrial development are like two sides of the same coin. In fact, the development of small scale industries directly promotes entrepreneurship.

Prasad (1985) made a study on “Financing of Industrial Development in Andhra Pradesh: “A Case Study of APSFC”. This study probes various aspects of the role of the Corporation in the process of industrialization. The study broadly covers APSFC's
contribution to the promotion of small, medium and large scale industries in the State. This study indicates that small scale industrial units' promotion is a major contribution of the APSFC to the overall industrialization in the State of Andhra Pradesh.

Sikindar Sujit (1985)\textsuperscript{26} conducted a study on "Development Banking: A Study of the Working of SFC", emphasizes the nature and character of development finance institutions; including SFC's organizational structure and determinants of administrative mechanisms for the Assam State Financial Corporation (ASSFC), operational aspects, areas eligible for assistance and statutory jurisdiction with regard to its operation, formulation of policies and procedures adopted for executing the projects, contribution of the corporation towards industrialization of the areas under its jurisdiction, difficulties experienced by the corporation in the region along with an analysis of the efforts made to bring further improvement in the activities of the corporation. This study views that the industrial development of the state, inadequacy of entrepreneurial talent happens to be the main hindrance but not lack of finance, lack of education among the entrepreneurs, deliberate default in repayment due to the belief that the assistance sanctioned by the Corporation need not be repaid, were identified as factors hindering the progress of the Corporation.

Satyanarayana (1986)\textsuperscript{27} has studied the 'Role of State Financial Corporations in Financing Small Scale Industries in India with Special Reference to APSFC'. The aim of the study is to examine the role of the State Financial Corporations in meeting the vital financial needs of small scale sector in India. It evaluates the pattern of financing of small scale sector by the SFCs in view of the newly emerging financial sector reforms. It is hypothesized in the study that the SFCs advanced small sized loans to large number of industrial units. There is a positive correlation between the rate of growth of SSI units and the amount of advances made by SFCs and that SFCs are able to meet the term finance requirements of the small scale units only to a limited extent.

Suryanarayana's (1986)\textsuperscript{28} study on "APSFC: A Catalyst of Industrial Development in Andhra Pradesh", while emphasizing the need for development banks, gives a general over view dealing with their operations, resources, SFC, IDBI interface, and personnel organization. Also, it explains provisions of SFC's Act in some detail. Further, operational performance has been examined by comparing practices with
policies. This study discussed growth and development of APSFC, its resources, organization and schemes.

Parthasarathi, (1987)\textsuperscript{29} in his “Performance Evaluation of SFCs: A Comparative Study”, examines the SFC’s performance during the period 1970-71 to 1984-85. This study gives a number of suggestions including relaxation of margins, lower rate of interest and loans to small scale industries on a priority basis. He also discusses the problem of sickness in the assisted units briefly, while referring to the performance of assisted units of SFC’s. The study has recommended systematic monitoring and follow-up, in the SFC’s to check sickness in the assisted units.

Jayaprakash Reddy and Brahmanandam (1987)\textsuperscript{30} in their article, “Small Scale Sector Problems and Prospects”, have stated that any problem, whether production, raw-material, power, transport or marketing faced by an entrepreneur is ultimately turns to be problem of finance, as finance is considered to be the cause and effect of several problems in most of the cases. Besides, the government action in reserving certain items for exclusive production by this sector has given the necessary fillip to it but these are not enough to sustain their growth. Therefore, they advocated establishment of Small Industrial Development Bank (SIDB) on the line of NABARD and IDBI to cater to the financial needs of this sector.

Dhankar, S. Raj (1987)\textsuperscript{31} studied “The Role of Financial Institutions in the Industrial Development with special reference to Haryana Financial Corporation (HFC)”. This study attributes a comprehensive role to Central and State Financial Corporations for the growth of industries in Haryana. He also feels that there is a need to increase loan limits, decreasing the rate of interest, softening the repayment terms, supplying power regularly, interest - free loans to backward areas, more liberal assistance to technically qualified persons and special assistance in marketing the products. This study suggested that financial institutions should open more local offices at all industrial centers and the officers should work very closely with the entrepreneurs. This study further pointed out that more professionally qualified persons should be appointed to run these institutions.

Azad and Usha Arora (1988)\textsuperscript{12} in their article “Financial Constraints of Small Scale Sector”, examined the problems of small scale industrial sector. Even after a good amount of financial assistance was rendered, in their opinion, small scale industry
suffered from high rate of interest, blockage of capital, dependence on unorganized sources, delay in payment of bills and lengthy procedures of financial institutions which hampered the growth of this sector. The study recommended that the borrowings should be made cheaper by lowering the rate of interest on loans of commercial banks especially for short term loans.

A study of R. Natarajan (1989)\textsuperscript{33} analyses the share of various agencies in financial assistance rendered to small scale industries. This study considered, being a functional study, confining them to promoting and financing of the small scale industry in the state. Besides, the study also examined the development of credit and supervision of the borrowed small scale industrial units by funding agencies and the working capital advances to small scale units by commercial banks and their attitude towards entrepreneurs. The study reveals that the small scale industry's borrowing of term loans from APSFC was difficult and that the procedures and legal formalities are too complicated and unofficial payments by borrowers are not common. This problem seems to be faced especially in regard to commercial banks.

Dikshit (1989)\textsuperscript{34}, in his article " Financing of Small Scale Industries, Some Thrust Areas", focused on the entrepreneur and the environment in which he is to survive and grow. He pointed out, the government, the banks, the financial institutions and other agencies have an important role to play in this process of creating an environment conducive for fostering entrepreneurship, through proper policy intervention such as easing of procedures, deregulation, freeing of constraints, fiscal/taxation incentives etc.

Muthukrishnan, (1989)\textsuperscript{35} in his study on "Institutional Finance for Backward Area Development in Andhra Pradesh - A Case Study of APSFC", has concluded that there has been a gradual decline in the share of non-backward districts, thereby calling for wider disbursal of assistance by APSFC. In addition, a distinct trend of increase in the relative position of the backward districts not claiming their due share in the total credit deployed by the corporation is studied.

Satya Sundharam (1990)\textsuperscript{36} made a study on "Institutional Finance of Economic Development in India". He pointed out that in spite of awareness in the urban area, the SSIs are unable to progress beyond a limit because of delay in sanction of loans. He makes out a case that timely financial help and relaxation of rules are necessary for the
survival of SSIs. He mentioned that unless the financial corporations accord a higher priority to location of units in the backward region while extending any type of service to the industrial units, the objectives of balanced regional development will go in vain.

Om Prakash (1990) conducted a study on “Performance of State Financial Corporations - A Study of Andhra Pradesh State Financial Corporation” and evaluated the performance of APSFC vis-a-vis development financial institutions in the areas of resource mobilization, operational performance and recovery performance. Financial performance is studied with specific reference to profitability and financing of backward areas over a period of 10 years of operation from 1978-79 to 1987-88. The author attributes the Corporation’s failure to imbalances in backward areas due to lack of infrastructural facilities, unsound project appraisal and mounting over-dues. The author recommends raising of funds through share capital as against loans from the State Government or IDBI. According to him, adequate publicity, canvassing for local patronage should be done to attract reasonable assistance for rural industrialization possibly by encouraging industrial co-operatives is suggested.

Himachalam, et.al., (1995) in their research paper entitled, ‘Financing of Small Scale Units by APSFC – A Study’, maintain that though the APSFC was specially formed to promote and develop the small scale industries in the state, it does not appear to have fulfilled its objective. They draw attention to the financing of small scale units in the Tirupati Industrial Estate by the APSFC and examined how far it has attained its confirmed objectives. The study reveals that the private sector units have a disproportionately large share of loans sanctioned to them though their number is limited in the estate and therefore it is necessary to provide need-based assistance impartially so that all categories of units get due share of assistance from the APSFC. Thus, the preferential treatment is avoided. This will create a congenial atmosphere to stimulate and motivate entrepreneurs to face the risk of uncertainty and will promote entrepreneurship in all categories of enterprises. The authors also suggested that the APSFC should undertake local based studies to identify the areas in which industries can be setup and prepare project policies for them. This would strengthen the existing industrial base and attract prospective entrepreneurs and thus, promote industrial development in industrially backward areas.
Chander Subhash and Singh Parampal (1998) in their research paper entitled 'Role of Punjab Financial Corporation (PFC) in Financing the Industries in Punjab', have analyzed the role of the PFC. It specifically caters to the needs of tiny and small units, where the mortality rate is very high and while granting loans and advances, it takes care of the objectives of achieving balanced regional growth. But the internal control system in the PFC is very weak resulting in red-tapism and bureaucracy.

Sivarami Reddy, et.al, (1998) in their research study entitled, 'Institutional Finance to SSI: Role of APSFC', draw the following conclusions: (1) the corporation has been pumping huge amounts into the Small Scale Industry (SSI) Sector in different forms of loans. The major form of loans extended to the SSI sector has been 'term loans' only; (2) since the adoption of the New Economic Policy (1991), the Corporation's financial assistance to the SSI sector has tended to decline gradually. The New Economic Policy, though it envisages adequate credit to SSI Sector, has allowed cheaper credit. The SSI entrepreneurs, therefore, have second thoughts to obtain the required funds at higher rate of interest from the corporation; (3) Sole proprietary SSI units securing financial assistance from the Corporation were more than other kinds of units in number. But it is only the private limited SSI units, which cornered larger financial assistance in spite of their number being less. It emphasizes that relatively big SSI units were able to procure larger quantum of funds from the APSFC; and (4) Another significant observation of the study is that there have been intense inter-regional imbalances in the extension of credit to the SSI sector in the three regions of the State of Andhra Pradesh.

Prasad (2000) in his article, "Financial Requirements of Small Enterprises in India", reveals that the timely and adequate availability of credit is critical input for all kinds of production including that by Small Scale Enterprises (SSEs). It is scarce and is available at a cost after completing certain formalities viz., availability of a viable project, satisfying bank’s collateral requirements, third party guarantee and capacity to repay the principal amount etc. The SSEs require finance not only for setting up the units but also for meeting working capital requirements, raw materials and finished goods, diversifying, upgrading and supplying goods on credit. Owing to obvious constraints, such enterprises are not in a position to raise adequate funds on their own for running enterprises on sound economic lines of expanding or modernizing. The reason for all these incapacities is not
far to seek as these have weak capital base because of limited quantum of financial resources in proprietary or partnership ventures and their small sizes.

Bagchi (2000) in his article “Credit Linked Capital Subsidy Scheme (CLCSS) for Technology Up-gradation of Small Industries”, pointed out that the technological obsolescence is one of the major problems faced by our industrial enterprises in general and the small scale enterprises in particular. The author highlighted the role and importance of the technology up-gradation and modernization fund scheme of the Small Industries Development Bank of India (SIDBI) is being run from 1995-96.

Ramesha, (2000) in his article “Institutional Credit to SSI Sector – Role of Banks and SFCs in the Post – Reforms Scenario”, reveals that Small Scale Enterprises (SSEs) are viewed increasingly as an important vehicle for meeting both the growth and equity objectives of developing economies. Despite a plethora of policies and programmes, to promote SSEs success rate remains very low. Commercial banks continue to play an important role in financing SSI sector. However, the growth rate of bank credit has been low as compared to the growth rate of production from SSI sector. It is interesting to note that the credit from SFCs has shown relatively higher growth rate as compared to banks credit.

Khan and Zaqaullah Shaikh (2001) in their paper on the “Financing of Small Scale Industries in Maharashtra”, examine the primary objective of the industrial policy of Maharashtra is making small-scale industries more competitive domestically as well as internationally. They should be well supported through a wide range of promotional interventions to achieve the economic priorities of employment generation, technological change and export promotion to bring about transparency in the system and thereby, reduce corruption. With changes in demand patterns and consumer preferences and a wider range of choice for most products, marketing is likely to become a key factor for enhancing industry’s competitiveness.

Trinadh, (2002) conducted a study on the “Performance of Andhra Pradesh State Financial Corporation in Liberalized Environment”. The broad objective of the study is to examine the role of APSFC in the industrial development of Andhra Pradesh. He expresses the view that the increasing significance of State Financial Corporation could be discerned from its performance over the past five decades. It is observed that there has
been a tremendous expansion of SPC’s operations thereby exerting significant impact on the economy both in quantitative and qualitative terms despite many difficulties. He argues that some of the urgent problems affecting the performance of State Financial Corporations in India include: (i) increasing over dues, (ii) weak internal resource position and (iii) bottle necks in diversification of assistance profile.

Vepa Kamesam (2003)\textsuperscript{46} presented his paper on the availability of multiple financial institutions in the public, private and cooperative sectors of the Indian economy. That caters to the credit needs of the MSMEs, capital creation of both the fixed and working capital. The preferential and needful treatments were also provided to MSMEs like lower rates of interest on bank credit. The Small Industries Development Bank of India (SIDBI) was set up in April 1990 as the principal financial institutions for promoting and developing the MSME sector and for coordinating the activities of other institutions engaged. The author also highlighted the Reserve Bank of India’s (RBI) emphasis on the flow of bank credit to micro enterprises in rural and semi-urban areas set up by vulnerable sections of society including women. A number of initiatives have been taken in this regard and banks have been advised to provide maximum support to Self Help Groups (SHGs).

Adeyemi S.L. (2003)\textsuperscript{47} made a study on “Entrepreneurship and small business – A case study of a developing country”. This study revealed the socio-economic structure of entrepreneurship, factors affecting the growth and development of enterprises and problems faced by entrepreneurs. The paper reveals that the age factor is not a static phenomenon for entrepreneurship development and promotion. Those entrepreneurs, who have less education, more practical experience and training and enter industry early in life, achieve success. Among the factors which contributed to delay or slow growth of entrepreneurial venture was the lack of sufficient industrial power supply, scarce of raw material and shortage of skilled workman. Another important finding of the paper that the major problems which the entrepreneurs faced competition from other similar small scale enterprises and some large units, shortage of working capital and raw material, labour problems, lack of proper managerial guidance and consultancy.

James Richardson (2004)\textsuperscript{48} suggested that the entrepreneurial activity can be a source of job creation and economic growth. Governments and international development organizations have been notified numerous programmes to stimulate and support
entrepreneurs in both developing and developed countries of Africa. The paper reveals some of the theory and evidence about the role of entrepreneurial activity in economic development and poverty elevation. The relationship of the both public and private shows the complex entrepreneurial activity appears to be neither necessary nor sufficient for the economic development.

Chandak, (2004) in his article “SSI Financing - A Systematic View”, have pointed out that the financing promotion and development of small scale industry including village and cottage industries, SSI has been a specific focus of India’s economic policies since independence. The country has made much special privilege and created a network of financing and support infrastructure to nurture SSI. The study found that the term disbursals by SFCs to the sector exhibited appreciable growth from the mid-'70s to mid-'90s.

Bala Subramanyam M.H, (2005) commented that the small scale industries occupy a place of strategic importance in Indian economy in view of their considerable contribution to employment, production and exports. However, since 1991 the small-scale industries in India find themselves in an intensely competitive environment due to globalization, domestic economic liberalization and dilution of sector specific protective measures. This paper probes the implications of globalization and domestic economic liberalization for small-scale industries and analyses its growth performance in terms of units, employment, output and exports.

Sameer Kumar, Dan Liu (2005) says that globalization has a significant impact on the enterprises in many ways. The changing international environment in finance, human resources, technology, politics, economics and social conditions created opportunities for the entrepreneurial enterprises to expand their international businesses at a fast pace. The globalization provides a great opportunity for entrepreneurial ventures to expand their business internationally. With the help of local governments, large corporations and international organizations entrepreneurial enterprises are able to confront the challenges posed by globalization and economic liberalization, to improve their competitiveness in the global market.

Tzu-Tsung Wong, Yin-Tse Lu (2005), studied key factors responsible for small and medium enterprises in Taiwan to successfully uses information systems. The
innovation and development of computer technology have had significant impact on the operations of various enterprises. They found that introducing information system into enterprises becomes a critical solution for the latter to survive in the highly changeable environments caused by computer technology, particularly in small and medium enterprises in Taiwan.

Debashis Chakraborty (2005) in his article “Credit Availability to Small Scale Sector”, claims that the SSIs are provided working capital through commercial banks and partial involvement of cooperative banks and regional rural banks. State Financial Corporation (SFCs), National Small Industries Corporation (NSIC) and National Bank for Agriculture and Rural Development (NABARD) provide term loans to SSIs. Financial Assistance from NSIC, and to some extent from SIDCs, usually comes in the form of supply of machinery on hire purchase / deferred payment basis. Small and tiny units are also provided term loans by commercial banks, along with working capital in the form of composite loans. While all these government agencies like small industries service institutes, Small Scale Industries Board etc., and special policies like Prime Minister’s Rojgar Yojana are in force to facilitate smooth functioning of SSIs through various assistance measures. In particular, in the light of the sector’s vulnerability to external competition, increase in the support measures through credit is absolutely essential. In addition, the government committees appointed from time to time have often pointed out that institutional credit does not always efficiently reach the target group, especially the tiny industries at the bottom.

Yerram Raju, (2005) in his article “Financing Options: Banks and Small Industries”, found out that impact of reforms on the small industries seems to have upset the applecart and many small industries became loss making units and the financing institutions distanced them because of the fear of accumulation of non-performing assets. All the expert studies have confirmed that the small industries are denied adequate and timely credit facilities and are, therefore, losing their competitiveness. Structural inadequacies and imperfections do not allow them to access equity markets. The author suggests the financing options that could be exercised by the banks and financing institutions like: Banks have to set up information banks on different products, Working capital should be assessed on the projected cash flows, A flexi-loan scheme to tackle seasonal and order based demands for credit, Factor markets must be extended after
modifying the relevant laws, and Banks should set up a Disaster Relief Fund (DRF) to meet the unexpected events of borrowers’ business.

Nirankar Srivastav and Syngkon (2007) in their article “Economic Behaviour of Small Scale Industries in Meghalaya: An Econometric Analysis of Entrepreneurship Development Programme”, stated that a number of SSIs are growing in the state in a significant manner. Meghalaya’s economy has begun to join the process, which is known as preliminary stage of “Industrialization”. At this stage, it is not possible to take full advantage of technology and economies of scale by the existing SSIs and the economy at large. As a result, in the present form of this sector is not in a position to contribute to the growth of state economy in a big way. It appears that unexploited sources, scale of economies / positive-externalities, technology applications and research and development could become the key factors for the further growth of the economy of Meghalaya. It is recommended to develop additional industries in the state that lead to the full exploitation of economies of scale and technical advances to lead the state to a solid, stable and sure progress.

Kongkiti Phusavat (2007), in his paper describes the key activities that were undertaken to assist enterprise, under the small and medium enterprises revitalization program. The department of Industrial Promotion under the Ministry of Industry sponsored this program. In this paper, the activities specifically discussed included the assessment of enterprises management system, development of performance analysis and addressing the ongoing challenges as a demonstration of information usefulness.

Ashok Kumar Mohanty and Durga Madhab Mahapatra, (2007), had undertaken a study on the evolution and growth of developmental financial institutions and small and medium enterprises sector in India. It covers development of SME sector and the operational performance of Orissa State Financial Corporation (OSFC) during 1990-91 to 1999-2000. For financial support to the SME sector, the policy envisaged adequate flow of credit, equity participation to the extent of 24 per cent by non-SME undertakings, provision for supply of risk capital through limited partnership and measures to ensure speedy payment arising from sale of products. The working capital needs of SME sector are met mostly by the commercial banks. The medium and large term finances for these units are primarily provided by Development Finance Institutions. State financial Corporations (SFCs) have been playing a pioneering role in the promotion and
development of small and medium industries in the states. The researchers made a suggestion that financial institutions including OSFC can make use of the study while deciding about the organizational structure and for formulating procedures for improved operation of sanction and disbursement of the loans and recoveries.

Ebjeke, Eshetu, Worku and Zeleke (2008) stated in their report, the increasing potential importance of Micro, Small and Medium enterprises (MSMEs) for more employment, more income and poverty reduction in Ethiopia. The high failure rates among well established small businesses and enterprises are a matter of concern. A random sample of 500 sample businesses and enterprises selected from five major cities in Ethiopia was followed up for 6 years in order to assess the impact of influential factors that are affecting the long-term survival and viability of small enterprises.

Cizkowicz, Piotr, Rybinski and Krzysztof (2008) made an empirical study on the role of banking and financial policies in promoting Micro, Small and Medium Enterprises. As results of the study confirm that a well-functioning and developed financial sector fosters economic growth. Additionally, financial deepening has significantly larger impact on the poorest parts of societies, thus playing a critical role in reducing income inequality and poverty. In many countries, however, the level of financial development is very low due to severe consequences arising from asymmetric information between lenders and borrowers. This, in turn, restricts the amount of capital available to companies, especially small and medium ones. In this paper, they have attempted to give some answers to the question of what the government’s role should be in overcoming barriers to capital and financing. The empirical research, as well as case studies of successful reforms, indicates that the main role to be played by the government in supporting financial sector development is to ensure macro economic stability and provide an appropriate legal and infrastructural framework for its functioning. Finally, they also argue that in the 21st century global-knowledge economy, there is a need to discuss the efficacy of public support for SMEs and its redirection to narrowly defined innovative sectors, which may create the potential for long-term development and an increase of social welfare.

Banikanta Mishra (2010) in his study on “Agriculture Industry and Mining in Orissa in the Post-Liberalization Era: An Inter-District and Inter-State Panel Analysis”, stated that liberalization process made Orissa potentially the most attractive destination
for large capital intensive projects by private sector firms. He critically, analytically and empirically examined the agriculture, industry and mining sector. Basing on inter district and inter-state panel analysis; he highlighted the serious decline in the Orissa’s agriculture sector which is the only significant determinant of per capita income in the state while the mining sector has flourished.

Bisman, Jayne (2010) finds that, an extensive body of literature, internationally, in exploring the role of small and medium enterprises (SMEs) in generating employment and contributing to regional economic growth. In India, one of the peak bodies charged with supporting the development and financing of the SME sector is the Small Industries Development Bank of India (SIDBI). Both the policies of the Indian government and the mandate of the SIDBI called for the financing of regional development initiatives and assistance to so-called backward areas in efforts to correct existing regional economic imbalances and promote more equitable levels of development on an international basis. This paper presents the results of a study of financing provided by the SIDBI during the watershed period from 1996 to 2003, including an evaluation of the bank’s responsiveness to SMEs in regional areas. They examined the quantum of state-wise assistance provided by the SIDBI to assess the distribution of finance to support SMEs, on a comparative basis, across the more developed and less developed states of India. The results revealed statistically significant differences in the SIDBI financing on a state-wise basis, to the detriment of the less developed regions. They explore a range of possible explanations for the apparent inability of the SIDBI to correct regional imbalances in financing Indian SMEs.

Txomin, Iturralde’s (2010), theoretical papers on banking relationships have focused on how the strength of a bank-firm relationship affects the design of credit agreements. In empirical studies, the number of bank relationships has been often used as a proxy to strengthen the bank-firm relationship. Any analysis of bank-firm relationships must also include a study of the reasons why a particular bank is selected. This means identifying the most significant decision-making variables concerned with such contracting. In this article, author examines the determinants of the number of banking relationships and the factors that influence the choice of banks in a sample of small and medium-sized firms. The reference to SME firms is very useful, since SMEs are highly dependent on banking finance to undertake their projects. The results provide some
evidence in support of the idea that, for SMEs, the size of the firm, age, leverage and financial cost have significant links with the number of banking relationships. On the other hand, the results confirm the tendency for qualitative aspects to become determining factors in the choice of financial institutions.

Ahmed J.U. (2010) studied the growth and performance of micro and small enterprises in the global era. The micro and small enterprises are considered to be one of the principal driving forces in economic development. The importance of the MSE sector is well recognized because of its significant contribution in fulfilling different socio-economic objectives, such as higher increase of employment, output and promotion of exports fostering entrepreneurship. Micro, small and medium enterprises (MSMEs) including khadi and village industries/rural enterprises constitute an important segment of Indian economy in terms of their contribution to nation’s industrial production, exports, employment and creation of an entrepreneurial base. He stated in this paper as the MSME sector contributes significantly to the manufacturing output, employment and export of the country, to utilize the existing natural and human resources for all-round economic development and employment generation, the Ministry of MSMEs is actively promoting the development of MSMEs through the programmes and schemes implemented by the ministry and its organizations. In this context, he has made an attempt to examine the development and growth performance of MSMEs in Indian economy.

Appa Rao.B and Shobha Rani. K.B.D., (2011) in their paper, stated that the APSFC came into existence on 1st November 1956 with amalgamation of Andhra State Financial Corporation (AFC) and Hyderabad State Financial Corporation (HFC) with the mandate of promoting and developing SSIs. The APSFC has made a significant contribution to the industrialization of Andhra Pradesh through its 56 years of dedicated service to MSMEs. APSFC recognized that the managing of the element of risk is central to its business and is evident in the commitment of professionalism in all aspects of the risk management process. It has spread its risk by having varied portfolio against the downturn in any specific segment. They mentioned another statement in this paper that the APSFC has signed with tripartite memorandum of understanding with SIDBI and government of Andhra Pradesh on November 2003 to provide reduced rate of refinance and fresh equity. The corporation was able to reduce its average weighted cost of borrowing to its customers. Now the corporation is in a position to assist Micro, Small
and Medium Enterprises with loans from the development funds at a lower rate of interest.

Ben Quarsie Honyenuga (2011) concluded in his paper that the SMEs face a lot of human resource challenges. Notable among them are poor attitude to work by employees, high demand for benefits and inability to attract and retain trainees and employees. Then managerial implication for this study was that owners of SMEs should ensure good practices in HR in order to remain competitive. The performance of SMEs will therefore be enhanced if more attention is paid to the acquisition and management of human resources. This paper mainly focused on the HR practices and challenges of Small and Medium Enterprises (SMEs) in Ghana.

Socio-economic Survey (2011) the new revised policy of interest rebate to banks or financial institutions is to encourage the sick units and provide a rehabilitation package for their quick revival to join the main stream. 6 per cent interest subsidy will be provided to all identified eligible sick units, subject to maximum of Rs. 2.00 lakh per year for a maximum period of three years. The component of interest to be reimbursed shall be projected by the financing bank to the state level committee after following the guidelines. Once the state level committee accepts the proposal, the Commissioner of Industries shall draw the eligible interest subsidy on annual basis and reimburse to the financing bank.

Abiola and Babajide (2011) undertook a study on impact analysis of microfinance in Nigeria. In this paper they explained about the financing constraints approach to microfinance institutions and improved access to credit for micro enterprises in Nigeria. According to this approach, the micro enterprises improved access to credit by relying less on internal funds for their investments. Thus, the investment sensitivity to internal funds of micro enterprises in Lagos State was using a cross sectional survey among Micro Finance Banks (MFBs) and Micro Finance Institutions (MFIs). This approach is applicable to evaluating microfinance impact in other countries. They concluded their paper saying that the MFBs alleviated the financing problems of micro business.
Agarwal and Himani (2011)\(^{48}\) opined that the Micro, Small and Medium Enterprises (MSMEs) are the backbone of the Indian economy and this sector plays a vital role in the growth of the country, contributing significantly to the GDP and export. In addition, this sector mobilizes local capital and skills, provides hubs to millions of people and provides the impetus for growth and development, particularly in rural areas and small towns. Most of the studies were examined different types of problems based on the size, age and growth rate of the firm.

Deepa T.S, Thattil and Gabriel Simon (2011)\(^{49}\) stated that the small enterprise sector has emerged as a vibrant sector in the Indian economy. The Micro, Small and Medium Enterprises (MSMEs) sector contributes over 90 per cent of total industrial units, accounts for around 80 per cent of total industrial employment and contributes nearly 39 per cent of industrial production and 33 per cent of domestic exports. In recent years, the MSMEs sector has consistently registered a higher growth rate compared to the overall industrial sector. The cluster development programme helps a common development of MSMEs cluster for the common benefit. The benefits of the scheme are technology upgradation, quality improvement and certification, credit facilitation, marketing support including exposure to the global markets and collective capacity building of the cluster units. Proper co-ordination and participation of cluster members was essential for smooth working of clusters.

Garge and Rakesh (2011)\(^{70}\) undertook a study, critical evaluation of performance of SFCs in Northern India: with special reference to Punjab, Haryana and Delhi. State financial corporations (SFCs) provide finance to industries. SFCs were established for the purpose of promoting the growth of small, medium and large-scale industries in the country in order to expand the growth of industries and make the nation autonomous. SFCs play a vital role in the industrial development in the regions and they have been providing finance, technical competence etc., to the small and medium enterprises in the respective states. They analyzed the performance of state financial corporations (SFCs) in Northern India in terms of financial position, financial performance, role in industrialization and social empowerment. Results show the overall negative growth rates of loan sanctions and disbursements of SFCs during the study period.
Kumar, Nallabala Kalyan and Sardar Gugloth (2011)\textsuperscript{71} stated in their paper the micro, small and medium enterprises (MSMEs) are aptly regarded as the backbone of the Indian economy. The small scale sector occupies a position of prominence in Indian economy, contributing to more than 50 per cent of the industrial production value accumulation of income and generation of employment terms. The sector accounts for one third of the export revenue and employs the largest manpower next to agriculture. The paper highlighted the consequence of the MSMEs and their role in the economy and the impact of economic reforms on growth pattern and performance of MSMEs. They suggested that the MSMEs should be encouraged to make a significant contribution to the national income, employment and exports.

Sudarsan K. and Others (2011)\textsuperscript{72} studied the role Andhra Pradesh state financial corporation in the development of micro, small and medium enterprises (MSMEs) – a study of Tirupati branch in Chittoor District. This paper attempted to review the share of Micro, Small and Medium enterprises (MSMEs) in Indian economy and Andhra Pradesh State Financial Corporation, Tirupati branch’s financial assistance to promote the MSMEs in Chittoor district, and its impact on performance of MSMEs.

Ladzani, Watson and Others (2012)\textsuperscript{73} investigated the use of leadership and strategic planning functions in improving the management performance of Small, Medium and Micro Enterprises (SMMEs) in the province of Gauteng, South Africa. The findings of the paper are educating the owner/managers of SMMEs concerning the use of appropriate management measurement tools and strengthening the implementation of the leadership and strategic planning functions in order to improve management performance.

Kaur Bawa, Sumninder and Kaur Prabhjot (2012)\textsuperscript{74} in their Empirical study revealed that the Micro, Small and Medium Enterprises (MSMEs) are the backbone of Indian Economy and that this MSME sector plays a vital role in the growth and well being of the country. The dividend policy of small and medium enterprises in Indian manufacturing sector is playing important role in developing MSMEs.

Seraul Islam (2012)\textsuperscript{75}, in his study, endeavored to identify the reasons behind why entrepreneurs became motivated and compelled to establish the business enterprises. The finding of the paper disclosed that the money making for family, self-employment, having a rich economic status, use of personal knowledge and utilizing the previous
business experience, family business tradition and more profitable nature of business are the push factors while lack of higher education and the unemployment, dissatisfaction with previous occupation and family pressure are pull factors. Motivations might be more or less stronger than other factors in the degree that they influence particular transition points.

Prsantaamama and Rajyalaxmi N (2012)

made an attempt to examine trends in the performance of APSFC from its inception and analysed the financing pattern of APSFC regarding loan sanctions and disbursements and they concluded their paper, saying that APSFC has made its humble beginning and picked up the pace during the later part of seventies and made a significant impact on industrialization in Andhra Pradesh. APFSC occupied the top position in the areas of improving loan sanctions, disbursements and recovery among all SFCs in the country since 2005.

Statement of the problem

The industrial spread over the countryside would encourage the small investments in the country as well as effective exploitation of rural resources to contribute significantly to the nation's development. The rapid development of small industries in the post-Independence period is a proof that, given the necessary credit, power and technological knowledge, rapid industrial development can take place. The MSMEs promote diversification of industrial base, dispersal of industries in rural and semi-urban areas and equitable distribution of national income. This will help reduce regional imbalances on the one hand and concentration of industries in some areas on the other.

The important necessities for the success of modern business enterprises are the availability of sufficient funds. In the present day globalised competitive industrial environment the MSMEs need funds to meet the fixed capital, working capital, and the promotional requirements. Raising of sufficient capital becomes a difficult task for the micro, small and medium enterprises in general. Therefore, various sources of funds have to be provided to raise the finance for varying purposes and periods to the MSME sector. The enterprises engaged in industrial production realize a great need of finance according to their firm's size and capacity. With a view to develop the backward areas, the governments have been providing investment with subsidy to the industrial units
established in those areas as notified by the government of India and the State
governments.

The Andhra Pradesh State Financial Corporation (APSFC) is a State level
financial institution. It is as an integral part of the developing financing system in the
country. It has gained prominence and has been promoting rapid industrial growth in the
state. It offers a package of financial assistance to entrepreneurs to enable them to
translate their ideas into reality. The maximum financial assistance provided by the
Corporation is in the form of term loans each year, followed by the working capital loans.
Since its inception up to March 2011, the total term loans sanctioned, recorded Rs.
7,584.80 crore, while working capital loans accounted for Rs.21.14 crore. It reveals that
the corporation does not give the required working capital loans and bridge loans to
MSMEs. The APSFC provides assistance to various entrepreneurs in the industry ranging
from sophisticated manufacturers to small scale industrialists. In spite of all these efforts
to develop industrial growth and development of the state, the corporation has failed to
provide adequate finance required by the MSMEs. It clearly reveals that the APSFC is
facing the problem of mobilising adequate resources and, hence, has not been able to
meet the growing financial needs of the MSMEs.

Need for the study

Finance is one of the factors which plays an important role in industrial
development and contributes effectively to the growth of economy. Hence, financing of
Micro, Small and Medium Enterprises contributes to the development of industrial sector.
So the availability and adequacy of institutional finance to the MSMEs assumes
importance for industrial growth and effective functioning. There is no comprehensive
comparative study on the impact of institutional finance for the development of MSMEs
in Chittoor and Nellore districts of Andhra Pradesh. In this context, a comparative study
on institutional finance to MSMEs assumes importance. From time to time, several
research works have been carried out on the vibrant issues of micro, small and medium
industries. These studies covered various issues of small scale units as well as service
sector units at national and regional levels. But most of these studies are confined to only
a few aspects of MSMEs development. Studies covering all dimensions of MSMEs and
the role of APSFC are very few. Some of the studies were carried out to evaluate the role of APSFC in the promotion of the micro, small and medium units by covering an independent district as a sample unit of the state of Andhra Pradesh. There is no research carried out so far to compare APSFCs role in the two districts in promoting the Micro, Small and Medium Enterprises in the state of Andhra Pradesh. Hence, the present study entitled, “Role of Andhra Pradesh State Financial Corporation in promoting the Micro, Small and Medium Enterprises—A Comparative Study of Chittoor and Nellore Districts”, is an attempt to fill the gap in this respect.

Objectives of the study

The present study has the following objectives:

1. To examine the organizational structure and development of the APSFC in Andhra Pradesh and in the sample districts.
2. To review the status and development of MSMEs in India, Andhra Pradesh and in sample districts of Chittoor and Nellore.
3. To evaluate the financing pattern of APSFC and its role in promoting of MSMEs in sample districts.
4. To examine the extent of financial assistance provided by APSFC to the sample MSMEs.
5. To probe into the performance of APSFC in terms of disbursements and recovery of loans.
6. To study the socio economic conditions and other factors motivating the entrepreneurs to establish MSMEs.
7. To identify the perception and problems of sample entrepreneurs in Chittoor and Nellore and to offer suggestions for promoting MSMEs.

Hypothesis

In view of the above objectives the following hypothesis are formulated to test during the study period of the current research topic.

1. No significant association exists in respect of sanctions, disbursements and recovery performance between Chittoor and Nellore districts APSFC Branches.
2. No significant relationship exists with regard to problems of MSMEs between the sample MSMEs of Chittoor and Nellore districts.

3. No significant association exists between the sample entrepreneurs of Chittoor and Nellore districts with respect to socio economic conditions.

Sample design

The main objective of the study is to probe the availability of finance for the MSMEs from APSFC in Chittoor and Nellore districts. The sample size of the present study includes only the MSMEs that got financial assistance from APSFC. To cover all categories of MSMEs in both the sample districts of Chittoor and Nellore, the MSMEs financed by SFC during the period 2000 to 2005 are taken into consideration. The MSMEs assisted during this period come to 333 in Chittoor and 321 in Nellore, totaling 654 MSMEs. Out of this list of APSFC sponsored MSMEs, a sample of 35 per cent would be selected covering Micro, Small and Medium Enterprises using a simple random sampling without replacement. Thus the total sample of the MSMEs comes to be 230 (654 X 35/100 = 228.90, rounded off to 230). Out of these 230 MSMEs, to have uniformity in study 115 MSMEs of Chittoor district and 115 MSMEs of Nellore district financed by APSFC have been selected for detailed investigation. To evaluate the performance of sample MSMEs of both districts, the data pertaining to sample MSMEs during the period 2001-02 to 2010-11 are taken into consideration.

Sources of data

In view of the objectives of the present study, to probe into the role of APSFC branches of Chittoor and Nellore districts in the development of MSMEs both primary and secondary data were collected. The primary data relating to the sample enterprises have been collected by canvassing a schedule among the entrepreneurs of MSMEs in the sample districts.

The required secondary data relating to the study were collected from annual reports of sample enterprises, the Andhra Pradesh State Financial Corporation of Chittoor and Nellore districts of Andhra Pradesh and various institutions and departments engaged in the area of MSMEs development like the Andhra Pradesh Industrial Development Corporation (APIDC), Commissionerate of Small Scale Industries (SSIs), National
Institute of Micro, Small and Medium Enterprises (NIMSMEs) and District Industrial Centres (DICs) of sample districts. Published and unpublished reports or drafts of different seminars and conferences held on MSMEs in India, theses on MSMEs and entrepreneurship submitted to various universities and research organisations, journals and periodicals in the area of MSMEs, Financial Express and Economic Times along with other daily newspapers, and various websites relating to MSMEs and entrepreneurship have also been referred to for the purpose of the present research work.

**Tools of analysis**

To accomplish the objectives of the present study, both the primary and secondary data collected through various means were scientifically analysed by applying appropriate statistical tools such as growth rates, percentages, averages, ratios, chi-square test, and analysis of variance (ANOVA) etc., in order to arrive at logical conclusions and to interpret the data meaningfully.

**Scope and Limitations of the Study**

The present research study covers the developmental aspects of MSMEs, in terms of investment, production, generation of profits and employment as well as the role of APSFC in the promotion of MSMEs in the study area. The present study is confined to Chittoor and Nellore districts during the period 2001-2011 based on the data available to cover all categories of Micro, Small, and Medium Enterprises in the study area. In the course of the present research study certain limitations were faced. The availability of data for the study, in order to assess the role of APSFCs in promoting the MSMEs from all of its angles, has been a limiting factor. Majority of the entrepreneurs in the study area are not maintaining relevant and accurate data on all aspects of operations of their enterprises and some of the information provided by the sample respondents is based on the un-audited records of the enterprises. The data collected from the sample enterprises may be subject to limitations like lack of accuracy. The present study would cover only the units assisted by APSFC. Lastly, this is a micro-level and area-specific study on the promotion of selected MSMEs in Chittoor and Nellore districts. Despite these limitations, the study would throw some light on the issues concerning development of MSMEs and can facilitate policy formulation.
Plan of the Thesis

The present research work is organized into seven chapters.

Chapter – I Introduction and Research Methodology

Chapter – II Andhra Pradesh State Financial Corporation (APSFC) and status of Micro, Small and Medium Enterprises (MSMEs) – An overview

Chapter – III Financing Pattern of APSFC and its role in promotion of MSMEs

Chapter – IV Financial Performance of APSFC in Sample districts

Chapter – V Socio-economic Profiles of Selected MSMEs in the Sample districts

Chapter – VI Entrepreneur’s perception about APSFC and problems of sample MSMEs

Chapter – VII Summary of Findings and Suggestions
References


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