INTRODUCTION
1.0 INTRODUCTION

Small scale industries are a vital constituent of India’s industrial sector. It contributes significantly to India’s Gross Domestic Product (GDP) and export earnings besides meeting the social objectives including that of providing employment opportunity to millions of people across the country. The development of Small and medium scale industries are: increase in the supply of manufactured goods, promotion of capital formation, the development of indigenous entrepreneurial talents and skills and the creation of employment opportunities. Small scale industries encompass vast scope covering activities like manufacturing, servicing, financing, construction, infrastructure etc. In view of the Government of India ever increasing importance given to the small scale industries they need to be set up in the years to come. By contributing its increasing share to the national production, employment and exports, small scale industries also contribute to the economic development of the country. MSMEs area major employment provider and donor to GDP, they are burdened with the responsibility of providing employment while at the same time experiencing slow moving growth because of dividing agriculture sector and Globalization. Small industry in India has been confronted with an increasingly competitive environment due to: (1) Liberalization of the investment regime in the 1990s; favoring Foreign Direct Investment (FDI); (2) The formation of the World Trade Organization (WTO) in 1995, forcing its member countries (Including in India) to drastically scale down quantitative and non quantitative restrictions on imports, and (3) Domestic economic reforms.

Small scale industries have the advantages of generating gainful employment with low investment, diversifying the industrial base, reducing regional disparities through dispersal of industries into rural, semi urban and backward areas. The Government established the Ministry of Small Scale Industries and Agro and Rural Industries (SSI & ARI) in October, 1999 as the nodal ministry for formulation of policies and programmes and schemes, their implementation and related coordination, to supplement the efforts of the states for promotion and development of this category of industries in India. The Ministry of SSI and ARI (Agro and Rural Industries) was bifurcated into two separate ministries, namely, Ministry of Small Scale Industries and Ministry of Agro and Rural Industries, in September 2001.
Chapter 1

Introduction

The role of the Ministry of Small Scale Industries is mainly to assist the states in their efforts to promote growth and development of the Small Scale Industries (SSIs) to enhance their competitiveness and to generate additional employment opportunities.

In addition, the Ministry attempts to address issues of country-wide common concerns and also undertakes advocacy on behalf of the Small Scale Industries (SSI). Indian small scale industries play an imperative role in the economic expansion of the country and have vast approaching for employment generation. Increasing Small scale sector also results in decentralized industrial development, better distribution of wealth and investment and entrepreneurial talent. The Government has initiated several policies for the growth and development of small scale industries. The MSMEs in India are acting as power and spirit of economic growth in the 21st century. The Ministry of Agro and Land Rural industries and Ministry of SSI have been merged into a single Ministry namely, Ministry of Micro, Small and Medium Enterprises. The Small scale sector has played a greater role in the socio economic development of the country during the past fifty years. It has significantly contributed to the overall growth in terms of Gross Domestic Product (GDP) employment generation and exports.

1.1 DEFINITION

The concept and definition of small industries has changed over years with the changing circumstances and pressing problems of the Indian Economy. Various Institutions, Government agencies and individuals have defined small industrial units in different ways.

Small Industrial Units 1990

According to Industrial Policy Statement 1990, the investment ceiling in plant and machinery for small industrial units fixed in 1985 has been raised from Rs.35 lakhs to Rs.60 lakhs and correspondingly for ancillary units from Rs.45 lakhs to Rs.75 lakhs. The investment for tiny units has been increased from Rs. 2 lakhs to Rs 5 lakhs. According to the modified definition an ancillary unit is one, which sells not less than 50% of its manufactures to more industrial units.
The union budget 2002-2003

The Union Finance Minister announced the change in the definition of small Scale industries it has included the enhancement of small industries investment ceiling for specified Hosiery Hand tool items.

The investment limit plant and machinery with regard to industrial undertakings manufacturing specified items in the hosiery and hand tool was enhanced from Rs.1 crore to Rs. 5 crores.

Micro, Small and Medium Enterprises Development Act, 2006

The Government of India enacted the Micro, Small and Medium Enterprises Development (MSMEs) Act, 2006 on June 16, 2006 which was notified on October 2, 2006.

With the ratification of MSMED Act 2006, the paradigm shift has included the services sector in the definition of micro, small and medium enterprises, apart from extending the scope to medium enterprises. The MSMEs Act, 2006 has modified the definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services.

Definition of Micro, Small and Medium Enterprises

The Act has defined medium enterprises for the first time. The enterprises are further classified into Micro, Small and Medium categories. The investment limits of these enterprises are as follows:

I. Manufacturing Enterprises:
   i) A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs.25 lakh;
   ii) A small enterprise is an enterprise where investment in plant and machinery is more than Rs.25 lakh but does not exceed Rs.5 crore; and
   iii) A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.

II. Service Enterprises:
   i) A micro enterprise is an enterprise where the investment in equipment does not exceed Rs.10 lakh;
ii) A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs.2 crore.

iii) A medium enterprise is an enterprise where the investment in equipment is more than Rs.2 crore but does not exceed Rs.5 crore.

(The investment limits of these enterprises are as shown in figure 1.1)

Figure 1.1
Classifications of Micro, Small and Medium Enterprises

(As per Micro, Small and Medium Enterprises Development Act, 2006)

The Micro, Small and Medium Enterprises constitute the overall industrial sector of the country.

1.2 GROWTH AND PERFORMANCE OF MSMES IN INDIA

Worldwide, the Micro Small and Medium Enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of the large enterprises. In India too, the MSMEs play a pivotal role in the overall industrial economy of the country. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector.

It can be observed from Table 1.1 that the number of MSMEs increased from 67.87 lakh units in 1990-91 to 311.52 lakh units in 2010-11. There has been a steady growth in investments, production, employment, and exports during 2010-11 over 1990-
The investment and production increased from Rs. 93,555 crore and 78,802 core in 1990-91 to Rs. 7,73,487 crore and Rs. 10,95,758 crore in 2010-2011 respectively at current prices. There has been a steady increase of employment and exports of MSMEs.

The employment in MSMEs increased from 158.34 lakh in 1990-91 to 732.17 lakhs during 2010-2011.

Table 1.1
Performance of Micro, Small and Medium Enterprises

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of MSMEs (in lakh)</th>
<th>Total Investment (Rs. Crs)</th>
<th>Production (Rs. Crs)</th>
<th>Employment at (Lakh persons)</th>
<th>Average Investment (3+2)</th>
<th>Average Production (4+2)</th>
<th>Average Employment (5+2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>67.87</td>
<td>93,555</td>
<td>78,802</td>
<td>158.34</td>
<td>1,378.44</td>
<td>1,161.07</td>
<td>2.33</td>
</tr>
<tr>
<td>1991-92</td>
<td>70.63</td>
<td>1,00,351</td>
<td>80,615</td>
<td>166.99</td>
<td>1,420.80</td>
<td>1,141.37</td>
<td>2.36</td>
</tr>
<tr>
<td>1992-93</td>
<td>75.51</td>
<td>1,09,023</td>
<td>84,413</td>
<td>174.84</td>
<td>1,491.27</td>
<td>1,148.32</td>
<td>2.38</td>
</tr>
<tr>
<td>1993-94</td>
<td>76.49</td>
<td>1,15,797</td>
<td>98,796</td>
<td>182.64</td>
<td>1,513.88</td>
<td>1,291.62</td>
<td>2.39</td>
</tr>
<tr>
<td>1994-95</td>
<td>79.60</td>
<td>1,23,790</td>
<td>1,22,154</td>
<td>191.40</td>
<td>1,555.15</td>
<td>1,534.60</td>
<td>2.40</td>
</tr>
<tr>
<td>1995-96</td>
<td>82.84</td>
<td>1,25,750</td>
<td>1,47,712</td>
<td>197.93</td>
<td>1,517.99</td>
<td>1,780.10</td>
<td>2.39</td>
</tr>
<tr>
<td>1996-97</td>
<td>86.21</td>
<td>1,30,560</td>
<td>1,67,805</td>
<td>205.86</td>
<td>1,514.44</td>
<td>1,946.47</td>
<td>2.39</td>
</tr>
<tr>
<td>1997-98</td>
<td>89.71</td>
<td>1,33,242</td>
<td>1,87,217</td>
<td>213.16</td>
<td>1,485.25</td>
<td>2,086.91</td>
<td>2.38</td>
</tr>
<tr>
<td>1998-99</td>
<td>93.36</td>
<td>1,35,482</td>
<td>2,10,454</td>
<td>220.55</td>
<td>1,451.18</td>
<td>2,254.22</td>
<td>2.36</td>
</tr>
<tr>
<td>1999-00</td>
<td>97.15</td>
<td>1,39,982</td>
<td>2,33,760</td>
<td>229.10</td>
<td>1,440.89</td>
<td>2,406.18</td>
<td>2.36</td>
</tr>
<tr>
<td>2000-01</td>
<td>101.1</td>
<td>1,46,845</td>
<td>2,61,297</td>
<td>238.73</td>
<td>1,452.47</td>
<td>2,584.54</td>
<td>2.36</td>
</tr>
<tr>
<td>2001-02</td>
<td>105.21</td>
<td>1,54,389</td>
<td>2,82,270</td>
<td>249.33</td>
<td>1,467.44</td>
<td>2,682.92</td>
<td>2.37</td>
</tr>
<tr>
<td>2002-03</td>
<td>109.49</td>
<td>1,62,317</td>
<td>3,14,850</td>
<td>260.21</td>
<td>1,482.48</td>
<td>2,875.61</td>
<td>2.38</td>
</tr>
<tr>
<td>2003-04</td>
<td>113.95</td>
<td>1,70,219</td>
<td>3,46,547</td>
<td>271.42</td>
<td>1,493.80</td>
<td>3,199.18</td>
<td>2.38</td>
</tr>
<tr>
<td>2004-05</td>
<td>118.59</td>
<td>1,78,099</td>
<td>4,29,796</td>
<td>282.57</td>
<td>1,506.86</td>
<td>3,624.22</td>
<td>2.38</td>
</tr>
<tr>
<td>2005-06</td>
<td>123.42</td>
<td>1,88,113</td>
<td>4,97,842</td>
<td>294.91</td>
<td>1,524.17</td>
<td>4,033.72</td>
<td>2.39</td>
</tr>
<tr>
<td>2006-07</td>
<td>261.01</td>
<td>5,00,754</td>
<td>7,09,398</td>
<td>594.61</td>
<td>1,918.54</td>
<td>7,717.90</td>
<td>2.28</td>
</tr>
<tr>
<td>2007-08</td>
<td>272.79</td>
<td>5,54,190</td>
<td>7,90,759</td>
<td>626.34</td>
<td>2,046.23</td>
<td>2,898.78</td>
<td>2.30</td>
</tr>
<tr>
<td>2008-09</td>
<td>285.16</td>
<td>6,21,753</td>
<td>8,80,805</td>
<td>659.35</td>
<td>2,180.37</td>
<td>3,088.81</td>
<td>2.31</td>
</tr>
<tr>
<td>2009-10</td>
<td>298.10</td>
<td>6,93,835</td>
<td>9,82,919</td>
<td>695.38</td>
<td>2,327.52</td>
<td>3,297.28</td>
<td>2.33</td>
</tr>
<tr>
<td>2010-11</td>
<td>311.52</td>
<td>7,73,487</td>
<td>10,95,738</td>
<td>732.17</td>
<td>2,482.94</td>
<td>3,517.46</td>
<td>2.35</td>
</tr>
</tbody>
</table>

Mean | 138.94 | 2,55,082.71 | 3,81,998.52 | 325.99 |

CV | 61.84 | 86.71 | 33.77 | 60.48 |

LGR | 8.49 | 11.34 | 12.45 | 8.35 |

CGR | 7.7 | 9.9 | 13.7 | 7.6 |

I-value | 7.097** | 6.058** | 10.388** | 7.238** |

The production increased consistently from Rs. 2,61,297 crore to Rs. 1,09,5758. The employment also registered on from 238.73 lakh persons in 2000-01 to 732.17 lakh persons in 2010-11 the exports increased considerably.

The Micro, Small and Medium Enterprises (MSMEs) in India have been increasing extremely fast in recent years. Micro, small and medium enterprises received special privileges in the Indian economic system. Micro, Small and Medium Enterprises have been accepted as the Indian engine of economic growth and for promoting equitable development. The MSMEs significant growth in number of units, production, and export value while employment has increased marginally over the period of 2000-2001 to 2010-2011 The economic augmentation process in India exhibits a problem which is more and more common throughout developing world. In developing economy, it is the small scale industry that constitutes the backbone of the economic structure. Its development creates vast employment opportunities for the people, effects decentralization of industries by the creation of industrial estates and makes possible a redistribution of economic power and income.
India has a vibrant MSMEs that play a significant responsible role in economic growth, rising trade, generating employment and creating latest entrepreneurship. Their contribution can be easily measured through the employment generating ability, growth of MSMEs, distribution of income level. The following data can give a quick glance on the contribution of MSMEs.

The MSMEs sector contributes significantly to the manufacturing output, employment and exports of the country. It is estimated that in terms of value, the sector accounts for about 45% of the manufacturing output and 40% of the total exports of the country. The sector is anticipated to employ about 60 million persons in over 26 million events throughout the country. Further, this sector has consistently registered higher growth rate than the rest of the industrial segment. There are 6000 products ranging from conventional to High-Tech items, which are being manufactured by the MSMEs in India. The following table 1.2 explains category-wise performance of MSMEs.
Table 1.2
Category Wise Performance of MSMEs in India during 2009-10

<table>
<thead>
<tr>
<th>Category</th>
<th>Figures/per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Units</td>
<td>29.81 million</td>
</tr>
<tr>
<td>Employment</td>
<td>69.54 million person</td>
</tr>
<tr>
<td>Production</td>
<td>39,829.19 billion</td>
</tr>
<tr>
<td>Investment</td>
<td>6,938.35 billion</td>
</tr>
<tr>
<td>Exports</td>
<td>2,230.27 billion</td>
</tr>
<tr>
<td>Share in total National Export</td>
<td>26.38 per cent</td>
</tr>
<tr>
<td>Share in GDP</td>
<td>8.72 per cent</td>
</tr>
<tr>
<td>Share in total Industrial Production</td>
<td>45 per cent</td>
</tr>
<tr>
<td>Number of Products Manufactured</td>
<td>Over 7500</td>
</tr>
<tr>
<td>Reserved Items for the Sector</td>
<td>20 items</td>
</tr>
<tr>
<td>Growth Rate of Overall Industrial Production</td>
<td>10.40 per cent</td>
</tr>
<tr>
<td>Growth Rate of Production</td>
<td>11.60 per cent</td>
</tr>
</tbody>
</table>

Source: Annual Report, 2011-12, Ministry of Micro, Small and Medium Enterprises, www.msme.in

1.2.1 IMPORTANCE OF SMALL-SCALE INDUSTRY

Employment of small-scale industry

The small-scale industries are labour-intensive and they can provide more employment per unit of capital. The employment generating capacity of Small-scale sector is eight times that large-scale sector. In cottage and household industries, with given investment, employment possibilities would be ten or fifteen times greater in comparison with corresponding factory industries. In an economy, characterised by abundant labour supply and scarce capital, the Small-scale industry assumes special significance.

Use of local raw material

The Small scale units make use of locally available raw materials. Most developing countries are rich in certain agricultural, forests and mineral resources. Small-scale industries can be based on the processing of locally produced raw materials. These industries not only economize the utilization of resources but also help conserve foreign exchange by producing and exporting goods processed by locally available resources.
Mobilization of capital

Small-scale industries are helpful in mobilizing capital. In an agrarian economy, people have a tendency in keeping their money idle rather than investing in large-scale industries. Since small-scale industries are located close to areas where people stay, mobilization of rural savings is easy. It mobilizes capital from lower middle class section to invest in productive activities.

Developing entrepreneurship

The growth of an entrepreneurial class requires an environment. Small enterprises provide the environment which encourages a growing network of feeder and complementary relations among plants and firms. It is in this environment the latent talent of entrepreneurs can be developed. Thus, the latent resources of entrepreneurship can be tapped by the growth of small enterprise only.

Equitable distribution of wealth

The growth of large enterprises results in concentration of economic power in the hands of a few people. The income and wealth, as a result, is distributed unequally in the country. On the other hand, small industries are either proprietary or partnership concerns or the ownership is widely dispersed in rural and backward areas.

So, the income generated in large number of small units is dispersed widely. Thus, the growth of small-scale industry ensures a more equitable distribution of income and wealth.

Efficient use of productive factors

Small enterprises use productive factors more efficiently this results in lower capital-output ratios and higher labour capital ratios. A rupee worth of fixed assets produces almost seven times the output in small-scale sector as compared to large industries. Further, the value added per unit of capital is higher in small units. It has been estimated that every one rupee of investment in fixed assets in this sector produces 4.6 rupee worth of goods.
Chapter I

Introduction

Promotion of export

The contribution of small-scale sector in export promotion is significant. A feature has been rapid growth in the export of non-traditional items. The small-scale sector accounts for 60,000 crores exports annually which is 40% of total exports in India.

Innovation

Small industries have relatively higher necessity and capacity to innovate. The national science foundation, an organization in United States of America (U.S.A) found that small enterprises produce four times more innovation per research dollar than do big companies. Increased number of small firms is expected to result in more innovations and make the Indian industry compete in international markets.

1.3. POLICY INITIATIVES IN MICRO SMALL AND MEDIUM ENTERPRISES

India has a long history of conceiving policies of protecting the small industrial units. Since Independence, several policy initiatives and measures have accordingly been taken by the Government during the year to enable the micro, small and medium enterprises to enhance their competitive strength, address the challenges of competition and avail themselves of the benefits of the global market.

The main objective of Industrial Policy Resolutions was to promote industrial growth and also determine the pattern of state assistance to small industrial units for fulfilling socio-economic objectives. Industrial development plays a crucial role in India’s development strategy. The progress of industrialization over the last fifty years has been a striking feature of the Indian economic development.

Industrial policies lay stress on the strategy of development. In increasing industrial production, diversifying the base of industrial production as well as increasing employment opportunities, industries have been playing important role in India. The promotion of industries has been regarded as an important element of the development strategy underlying Five Year plans. The industrial policy indicates the respective roles of the public, private, joint and cooperative sectors and also of the large, medium and small scale sector and underlines the national priorities. The advent of planned economy from 1951 and the subsequent industrial policy followed by Government of India, both Government and planners earmarked a particular position of Micro, Small and Medium Enterprises in the Indian economy.
Chapter 1

Introduction

Government’s objectives and intentions towards industry including Small scale industry were announced through Industrial Policy Resolutions (IPRs) in 1948, 1956, 1977, 1980, 1990 and 1991 respectively.

Industrial Policy Resolution – 1991

The Government of India, for the first time, tabled the new Small enterprise policy titled “Policy measures for promoting and strengthening and supplementing small, tiny and village enterprises in the Parliament on August 6, 1991. In 1991”, the Government of India announced a separate policy for the small and tiny sectors. This policy statement widened the investment limit for the tiny sector, removed the vocational restrictions and recognized business and industry related services as small industrial units on par with the tiny units. The manufacture of items earlier banned in the small industrial units was removed; the small industrial units which employ less than 50 workers with power and 100 workers without power were exempted from licensing. The Small and Ancillary Industries were exempted from licensing for all articles of manufacture, which were not covered by the public sector.

The investment of 0.5 million and other location conditions were withdrawn. All industry related services and business enterprises with an investment limit as those of tiny enterprises, irrespective of location, were recognized as small industrial units. A new scheme of integrated infrastructural development for small industrial units was provided with the participation of State Government and Financial Institutions.

The New Industrial Policy – 1999

The emerging economic scenario in the changed Liberalized and competitive economic environment necessitated structural and fundamental changes in the policy framework put in place for the development of Small Scale Industries (SSI).

The main objective of the Industrial Policy, 1999 was to create congenial environment for the small industrial units to cope with the emerging challenges of Globalization. To focus fully on the promotion and development of small industrial units, a separate Ministry of Small Industrial Units and Agro and Rural Industries was created the policy initiatives were.

1. The annual turnover limit for calculation of working capital limit for Small industrial units was raised to Rs. 5 crores from Rs. 4 crores.

12
2. The maximum ceiling limit for Composite Loan Scheme was increased to Rs. 5 lakhs.

3. To increase flow of credit to small industrial units, a new credit Insurance scheme was launched.

4. Small Industrial units producing goods in rural areas are allowed excise exemption on third party branded goods.

5. The definition of Small and ancillary industrial units was revised by reducing investment limit in plant and machinery to Rs. 1 crore from Rs. 3 crores.

6. Special package for the development of small and village industries in North Eastern regions were announced. The industrial units in the North Eastern Region were given exemption from excise duty for 10 years from the date of commencement of production; and

7. Special emphasis was given for the units which have high export potential.

Through the Ministry, Government has brought about changes in policies and development support that have enabled rapid and substantial development of MSMEs in India and given them a competitive edge over their Global countries. Some programmes and policies have been outlined here.

The facilities can be categorized into three, Policy initiatives, and Institutional support and credit dispensation. The following chart shows three categorized policies.
1.3.1 POLICY INITIATIVES

Small scale industries constitute a key link in the process of socio economic transformations of underdevelopment social structures. The Ministry Of MSMEs and other Government Departments are still working hard to pull the sector out of the recession and overcome some inherent problems.

MSMEs to promote the development of micro, small and medium enterprises in the country saw success this year. For accelerating the flow of credit to MSMEs, the RBI and Government have taken the following proactive initiatives.

- Reserve Bank of India (RBI) incorporated the definition of micro, small and medium enterprises, as defined, in the MSME Development Act into the revised guidelines on priority sector issued to SCBs on April 30, 2007.

- Based on the Finance Minister's policy package announced in August 2005, public sector banks were advised to fix their own targets for funding MSEs and achieve a minimum 20% year-on-year growth in credit to MSEs and double the credit flow from Rs. 67,600 crore in 2004-05 to Rs. 1,35,200 crore in 2009-10.

- Public sector banks should operationalise at least one specialized SME branch in every district and center having cluster of SME units to ensure uninterrupted credit flow to this sector.

- In August 2009, RBI advised banks not to insist on collateral security for loans up to Rs. 500,000 to MSE sector.

- Union budget 2008-09 announced MSE Refinance Fund and MSE Risk Capital Fund, which were established with SIDBI in June 2008. SCBs failing to achieve their priority sector lending targets would contribute to these Funds.

- Union Budget 2009-10 announced a special fund of Rs.4000 crore to SIDBI to facilitate the credit flow at reasonable rates to MSE sector. The fund will incentivize banks and SFCs to lend to MSEs by refinancing 50% of incremental lending to MSE during 2008-09.

- Small Scale Industries (SSI) sector is one of the three well-defined components of the priority sector credit. Since SSI sector has not stipulated any lending target banks are required to fix self-set credit target for growth.
Government has now redefined the Foreign Direct Investment (FDI) cap on MSME sector, according to which the 24% ceiling for ownership of SME units by bigger domestic firms or foreign investors has been removed. Higher Foreign Direct Investment (FDI) will be allowed according to the sector-wise cap stipulated in the FDI policy.

A policy package for stepping up credit to Small and medium enterprises was announced in the Parliament on August 10, 2005 in order to achieve a minimum 20% year-on-year growth in credit to the MSME sector by the public sector banks. The objective is to double the flow of credit to the MSME sector by 2009-10, i.e. within a period of 5 years.

1.3.2 SCHEMES FOR FINANCING MICRO, SMALL AND MEDIUM ENTERPRISES

In the post World Trade Organization (WTO) environment, it has become very clear that Small industrial units have to be cost competitive and produce quality goods to remain in business. The Ministry of Small Scale Industries (SSI) proposed to help small industrial units by giving incentives for taking ISO-9000 certification, introduce a Credit Linked Capital Subsidy Scheme (CLCSS), Technology upgradation Scheme and Credit Guarantee Fund Trust (TGSCGPT) for Small Industries. Schemes for Financing MSMEs are presented in the Chart1.3
### a) Reimbursement for ISO-9000 Certification Scheme

The scheme was started in March 1994 and it provides up to Rs. 75,000 per small industrial unit which acquired ISO-9000 Certification. Since the inception of the scheme of ISO-9000 reimbursement, 4,101 small industrial units took advantage worth Rs. 1,944 crore up to Nov-2006.

### b) Laghu Udyami Credit Card Scheme

Laghu Udyami Credit Card Scheme (LUCCS) introduced in November 2001, has been implemented by the banks for providing borrower friendly credit facilities to small business, retail traders, artisans, small entrepreneurs, professionals and other self-employed persons including those in the tiny sector.

Credit limit per enterprise under the scheme has been increased from Rs. 2 lakhs to Rs. 10 lakhs for borrowers with satisfactory record.

### c) Swarojgar Credit Card scheme

Swarojgar Credit Card Scheme (SCCS) has been launched since 15th August 2003 and banks are providing working capital to self-employment persons to the extent of Rs. 25,000 lakhs per card. Credit flow from the formal system to small borrowers, especially persons of small means, has not been satisfactory which has been confirmed by various studies.

Various credit delivery innovations in the form of Self Help Groups (SHGs) - Bank Linkage Programme for making financial services available to the poor, Kisan Credit Card Scheme (KCCS) for meeting the production credit needs of the farmers for small industrial sector have been introduced. However, tiny and cottage village industries sectors and self-employed persons were left out from credit card schemes.

### d) Credit Guarantee Fund Trust Scheme for Micro and Small Industries (CGFTSI)

The scheme covers collateral-free credit facility extended by eligible lending institutions to new and existing Micro and Small Enterprises up to Rs. 50 lakh per borrowing unit. Under the Scheme, 73,431 Proposals amounting to Rs. 1,97,133 crore have been approved. Credit Guarantee Fund Trust for Micro and Small Industries helps small entrepreneurs realize their dreams of making it big and successful.
e) Credit Linked Capital Subsidy Scheme (CLCSS)

The scheme was started in October, 2000 for a period of 5 years for encouraging the small industrial units for technology upgradation by installing new machinery and equipment for increasing productivity, quality upgradation, and machinery for packaging or for environment protection. Initially 13 items were shortlisted under this scheme, providing 15% upfront capital subsidy with effect from the 29.09.2005 to Micro, Small and Medium Enterprises. A provision for giving subsidy of Rs. 600 crores was made under this scheme. Recently the list of items has been enhanced to 30 so that more number of units can become technically advanced.

f) National Equity Fund Scheme (NEF)

The objective of National Equity Fund Scheme (NEF) Scheme is to provide equity type support to entrepreneurs for setting up new projects in tiny and small industrial sector for undertaking expansion, modernization, technology upgradation and diversification of existing tiny, Small Industries and Service Enterprises and for rehabilitation of viable sick units. In this scheme the cost should not exceed Rs. 50 Lakhs for new projects.

g) Integrated Infrastructure Development Scheme (IIDS)

Integrated Infrastructure Development Scheme (IIDS) was launched in 1994 with the objective of providing basic infrastructural facilities like Power Distribution Network, Water, Roads, Telecommunication, Drainage and Pollution control facility, Banks, Storage and Marketing outlets, Common service facilities and Technological back up services etc.

The estimated cost to set up an IID centre is Rs. 5.00 crore. Central Government provides up to 40% or Rs. 2 crore in the case of general states and 80% or Rs. 4 crore – for North-East Region, Jammu & Kashmir, Himachal Pradesh and Uttarakhand.

h) Technology development and Modernization Fund scheme (TDMF)

The main objective of the scheme is to encourage existing industrial and small industrial units to take up modernization of their production facilities and adoption of improved technology, the scheme was initiated in 1995 and extended up to 2003.
1.3.3 FIVE YEAR PLANS

The development of small scale industries continued to be one of the important elements in the national overall developmental strategy because of its favorable capital output ratio and high employment intensity. Recognizing the pivotal role, the small industries play in India’s economic development in general and industrial development in particular Small scale industries have been assigned due priority in the successive five year plans.

First Five Year Plan (1951 - 1956)

The First Five Year Plan initiated the establishment of All India Boards to advise and assist in the formulation of the programmes of development of small scale industries, including sericulture and coir. The allocation made for development of MSMEs was nominal at Rs. 5.20 crore out of plan outlay Rs. 1960 crores. The need for provision of adequate finance for these industries was also emphasized.

Second Five Year Plan (1956 - 1961)

In the Second Five Year Plan the allocation for the development of small scale industries was increased to Rs.56 crores out of total plan of Rs.4,672 crores. It pleaded for the development of small scale industries as an ancillary sector to provide precession parts and components to large scale units which should be prohibited from including such item in their production Programme.

Third Five Year Plan (1961 - 1966)

In the Third Five Year Plan a total outlay of Rs.264 crores was proposed for programmes of village and small industries. Its thrust was to reduce progressively the role of subsidies, sales rebates and sheltered markets, to improve the productivity of workers and to promote the growth of industries in rural areas and in small towns.

Fourth Five Year Plan (1969 - 1974)

In the annual plans from 1966-69 village and small scale industries were assigned a total plan outlay of 126.10 crores. A plan outlay of Rs. 53.48 crores was allocated for the modernization of small scale industries.

In the fourth plan a total outlay of Rs. 242.60 crores was allotted for the programme of village and small scale industries in the country. The main thrust was on the effective promotion of cottage and small industries widely dispersed in rural areas and small towns.
Fifth Five Year Plan (1974 - 1979)

Significantly large number of persons is depending on traditional industries like handloom, sericulture, coir, khadi and village industries, living below the poverty line, mostly in rural and backward areas, some of them belonging to backward classes. Therefore, the principal objective of the Fifth Plan was to reduce incidence of poverty and to bring out regional balance through the development of small scale industrial units, in the required parts of the country, the broad strategy of the programme was to

1. Develop and promote entrepreneurship and provide a package of consultancy services so as to generate the maximum opportunities for employment, particularly self employment.
2. Provide Facilities for a fuller utilization of the skills and equipment of the persons already engaged in different small industries;
3. Progressively improve the production techniques of these industries so as to bring them to a viable level;
4. Promote these industries in selected growth centers in semi urban and rural areas, including backward areas.

The revised Fifth Plan provided a total outlay of Rs.10,135 crores on organized industry and mining Rs. 9,600 crores in public sector and Rs.535 crores for village and small scale industries. The revised Fifth Plan took many bold steps such as removing the restriction on the private sector, monopolistic undertaking and foreign concern seeking investment in India.

Sixth Five Year Plan (1980 - 1985)

During the Sixth Five Year Plan, the programs for the village and small industries sector were framed with the following objectives.

1. To improve in the level of production and earning particularly in the earnings of artisans, by upgrading skills and technologies and decentralization basis.
2. To create additional employment opportunities on a dispersed and decimalization basis.
3. To expand efforts in export promotion.
4. To create viable structure of village and small industries sector so as to progressively reduce the role of subsidies.
Chapter 1

Introduction

The overall outlay envisaged in the Sixth Plan on industry and minerals including village industry were Rs.22,200 crores, i.e., 22.8% of the total outlay of the Sixth Plan. Besides this, for the development of energy programme, Rs.4,300 crores was to be spent on petroleum and Rs.2,870 crores on coal industry.

Seventh Five Year Plan (1985 - 1990)

The Seventh Plan provided an investment of Rs.19,710 crores in large and medium industries and Rs.270 crores for the development of village and small industries. Total investment in the industrial sector would thus be of the order of Rs.22,460 crores or 12.5% the total plan outlay. The annual target growth rate was 8%. The Seventh Plan lays down the following objectives for village and small scale industries.

1. To assist in the growth and widespread dispersal of industries.
2. To increase the level of earnings of artisans.
3. To ensure regular supply of goods and services through use of local skills and resources.
4. To develop entrepreneurship in combination with improved methods of production.

Eighth Five Year Plan (1992 - 1997)

The Eighth Five Year Plan dealt with beneficial consequences of the Seventh Plan and reaffirmed that new opportunities would be generated in small-scale sector so that weaker sections of the society as a whole would be able to draw the benefits of this sector by direct participation and widespread employment generation. A new policy for small and tiny enterprises was announced by the Government on 6th August, 1991, the policy promises to meet 100% credit demand of small and tiny industries.

The emphasis would be shifted from providing cheap credit to adequate flow of credit on a normative basis. Equity participation by other industrial undertakings up to 24% of their total shareholding is allowed. To enhance the supply of risk capital to SSI sector, a Limited Partnership Act was proposed to be introduced. To avoid delayed payment by the large units, factoring services through Small Industrial Development Bank of India (SIDBI) was proposed. In addition, suitable legislation to ensure prompt payment has also been proposed in the policy.
Chapter 1

Introduction

A new scheme of Integrated Infrastructural Development for Small-scale Industries would be introduced to promote linkage between agriculture and industry. A Technology Development Cell would be set up in the Small Industries Development Organisation which would provide technology inputs to improve productivity and competitiveness of the small-scale sector. An Export Development Centre would be set up in Small Industrial Development Organisation (SIDO) to serve Small Scale Industries (SSIs) to further augment export activities in this sector. Simplification of rules, regulations and procedures setting up of special monitoring agency to oversee the genuine credit needs of Small-scale sector, channelising composite loans through commercial banks, enlarging the single window scheme to project up to 20 lakhs are the other measures suggested in the policy for the promotion of small-scale industry.

A sum of 6,334 crores was earmarked for the village and small industries in the Eighth Five Year Plan (1993-97).

The Government of India announced in 1999-2000, the New Policy initiatives for the development of small-scale industries.

1. Ministry of Small Scale Industries (SSI) and Agro and Rural Industries was to be set up to focus on problems of SSI.
2. Working capital limit was determined on the basis of 20% of annual turnover. The turnover limit is enhanced from 4 crores to 5 crores.
3. A new Credit Insurance Scheme for providing security to banks and improving the flow of credit to Small Scale Industries SSI, particularly, export-oriented and tiny units was to be started.
4. Lending by banks to non-banking financial companies or other financial intermediaries for the purpose of on lending to tiny industries was to be included within the definition of priority sector for lending.
5. To coordinate the latest developments with regard to World Trade Organisation, a cell was to be set up to disseminate information to Small Scale Industries (SSI) associations regarding recent developments and organizing World Trade Organization (WTO) seminars and workshops.
6. A National Programme for Rural industrialization has been announced with a mission to set up 100 rural clusters every year to give a boost to rural industrialization.
Ninth Five Year Plan (1997 – 2002)

During the Ninth Plan, various initiatives were taken to strengthen the small industrial units through technology upgradation, modernization, enabling and encouraging them to enhance quality through introduction of modern management practices, providing marketing and other key inputs, increasing the availability of credit loans from financial institutions and banks against materials supplied etc.

Fifty Integrated Infrastructure Development Centers (I1DCs) were set up during the Eighth Plan for infrastructure facilities of small industrial units developed in backward and rural areas, out of which 22 have been approved. This scheme continued during the Ninth Plan period to help the small industrial sector. The Government has taken a step to provide financial assistance of Rs 75,000 per small industrial to acquire ISO 9000 or an equivalent quality certification. The credit provided to the small industrial sector by the public sector banks stood at Rs. 31,542 crore by March, 1997. The cumulative disbursement by the State Financial Corporations amounted to Rs. 12,704 crore up to March, 1996. The proposed outlay for Ninth Plan was Rs. 3,330.00 crores, but the actual expenditure was Rs. 2,855.00 crores for the development of village and small industrial units. By the end of March 2002, there were over 3.4 million small industrial units in the country accounting for more than 40 % of the gross output in the manufacturing sector and 35 % of the total exports of the country. They provided employment to 19.2 million persons.

Tenth Five Year Plan (2002 - 2007)

A Study Group under the chairmanship of Dr. S. P. Gupta submitted a report on the problems of small industrial sector in July 2000. After inter ministerial consultations, the Prime Minister announced a number of new policy initiatives on 30 August 2000.

- Enhancement of excise duty exemption limit for small industrial units from Rs. 50 lakhs to Rs. 100 lakhs.
- Increase in composite loan limit to Rs. 25 lakhs.
- Coverage of loans up to Rs.25 lakhs under the Credit Guarantee Fund scheme.
- Increase in project cost limit under the National Equity Fund scheme to Rs. 50 lakhs.
- Credit linked capital subsidy at 12 % of the cost of technological upgradation of small industrial units for modernization of small industrial units.
The service and business related small industrial units with a maximum investment limit of Rs. 10 lakh would also be covered under priority lending.

- Enhancement of investment limits to Rs. 500 lakh for Hi-Tech and export oriented sectors.

- Technology Bank would be set up for small industrial sector by strengthening the existing Technology Bureau for Small Enterprises (TBSE) of SIDBI.

- One time capital grant of 50% to Small Industry associations for setting up international level testing laboratories for small industrial units.

- Preference to be given to tiny units while organizing buyer seller meets, vendor development programmes and exhibitions.

- Conduct of Third Census on Small Industries.

- Integrated Infrastructure Development Centers (IIDCs) scheme extended to all areas.

During the Tenth Five Year Plan 58 Integrated Infrastructure Development Centers (IIDCs) were approved and central grant of Rs. 38.83 crore was released up to February 2001. An additional 50 centers was proposed to be taken up during the Tenth Plan Period.

The Tenth Plan was been expected to increase the production of these Small industrial units to Rs. 14,01,939 crores, help them provide employment to 23.7 million persons, and export goods worth Rs. 1,26,000 crores by 2006 – 2007. Out of the total plan outlay of Rs. 15, 25,639.0 crores as on 2002-07, the proposed outlay for the development of village and small industrial units was Rs. 3,499 crores. The sector was targeted to grow at 12% per annum during the Tenth Plan.

Eleventh Five Year Plan (2007 – 2012)

The Eleventh Plan aimed at raising the rate of growth of the industrial sector to 10% and manufacturing growth to 12% per annum. Continuing commitment to priority lending for MSMEs remains an essential feature of development banking. The Eleventh plan ensures that the policies are sufficiently flexible to support the development of microfinance.

The strategy for manufacturing has been proposed by the National Manufacturing Competitive Council (NMCC), which includes the following initiatives, should be operationalised.
Chapter 1

Introduction

i) Taxes and duties should be made non-distortionary and internationally competitive. Internally, the tax system must promote and be consistent with the unified national market, so that the Indian Industry can reap the benefit of economies of scale and scope.

ii) While initiatives to provide infrastructure in general are important, they should be supplemented by efforts to promote infrastructure development in local areas such as Special Economic Zones (SEZ) and Special Economic Regions.

iii) Technological modernization will be the key to high industrial growth.

iv) State Governments should take steps to create an investor friendly climate, providing a Single Window Clearance of applications for establishment of industrial units.

v) Labour-intensive mass manufacturing based on relatively lower skill levels provides an opportunity to expand employment in the industrial sector.

vi) The policy of progressive de-reservation of industries for small scale, production has reduced the list of reserved industries from about 800 to 239. This policy should continue in the Eleventh Plan at an accelerated pace.

vii) Industrial licensing should be progressively eliminated. Equally important is the need to amend the Companies Act, 1956.

viii) The existing incentive programmes such those available for the North-East, J&K, Himachal Pradesh and Uttarakhand need to review with a view to assessing their impact on industrialization in these areas.

ix) The industrial growth strategy would be incomplete if it does not recognize the critical role and the special needs of the micro, small and medium enterprises (MSMEs).

The Eleventh Plan places special emphasis on infrastructure and skill formation. Competition is the best guarantee of consumer protection and should be strongly encouraged. It needs to be ensured that the un-registered small enterprises and units outside the co-operative fold are also able to benefit from Government schemes. A cluster approach can help increase viability by providing these units with infrastructure and support services of better quality at lower costs.
Chapter 1

Introduction

All entry barriers should be removed and business risks for start-ups mitigated, the latter, interlaid, through a large number of well-managed business incubators in the identified thrust areas of manufacturing. In order to improve the competitiveness of MSMEs, schemes for establishment of mini tool rooms, setting up of design clinics and providing marketing support should be innovated on Public Private Partnership (PPP) basis. There should be special focus on the services sector, so that it’s potential to create employment and growth is fully realized.

Under the Eleventh plan, there should be two kinds of schemes one focusing on the lives of small firm workers, artisans and craft people and the other on their livelihood.

One of the important tasks of the Eleventh Plan would be to review the position regarding the availability of timely and adequate credit both term loan and working capital to small and medium enterprises from commercial banks and other financial institutions and suggest measures to eliminate the shortcomings that are noticed.

1.3.4 CHALLENGES OF GLOBALIZATION AND LIBERALIZATION FOR MSMES IN INDIA

It is thus argued that Globalization was policy-induced through liberalization of the economy. The Globalization has occurred because of the changes within the Global economy into which they were already integrated. The process was not driven by increased openness, but was rather a consequence of external changes for an already open economy. This is called Intensive Globalization, for many other economies, it is increased openness, which has dominated the process. Principally the impact of Globalization on Indian industry had been started with the emergence of Industrial Policy statement of 1973 when foreign investment allowed in specific industries. Globalization in India is generally taken to mean integrating the economy of the country with the world economy. The real thrust to the globalization process was provided by the new economic policy introduced by the Government of India in July 1991 at the behest of International Monetary Fund (IMF) and the World Bank. Momentum to the process of Globalization occurred in the recent years as a consequence of speedily progress especially in communications, transport and computer technology.
Chapter 1

Introduction

Impact of Globalization on Indian Industry started to appear apparently when the Government of India modified its economic policy in 1991, by which it allowed direct foreign investments in the country. The prime intention behind this initiation was that the Government wanted to break down the chronic bottleneck that stopped efficiency and competitiveness, so that it would provide the impetus to economic Growth.

Globalization is the process of integrating various economies of the world without creating any hindrances in the free flow of goods and services, technology, capital and even labour or human capital. Small scale and cottage industrial sector has emerged as an Engine of Growth in several developing and developed economies of the world.

In India also they have emerged as a vibrant and dynamic sector of Indian economy by virtue of their significant contribution to Gross Domestic Product (GDP), industrial production and export. However, the most vital contribution of this sector is headed for employment generation which is next to agriculture.

With the Liberalization and Globalization of the Indian economy, the small enterprises in India have unprecedented opportunities on the one hand, and face serious challenges, on the other. While access to global market has offered a host of business opportunities in the form of new target markets, possibilities to exploit technological advantage, etc., the challenges in this process have flowed mainly from their scale of operation, technological obsolescence, and inability to access institutional credit and intense competition in marketing. The Government of India is fully aware of the challenges of globalization and has taken appropriate measures for preparing the Micro and Small Enterprises (MSEs) to meet the challenges of Liberalization and Globalization. The Ministry of Micro, Small and Medium Enterprises (MSMEs) in India also conducts workshops on various aspects of World Trade Organization (WTO), Anti-dumping seminars, IPR, etc. to sensitize the MSEs entrepreneurs and other stakeholders about the likely impact of Liberalization and Globalization. The Micro Small and Medium Enterprises Development (MSMED) Act, 2006 has been formulated as a response to the long-standing demand of the MSEs sector, the emergent need to provide a legal framework to address the developmental concerns of what is globally known as small and medium enterprises.
Chapter 1

Introduction

The Act, inter-alia, provides the first-ever legal framework to facilitate the promotion and development of Micro, Small and Medium Enterprises (MSMEs), which comprise both manufacturing and services entities.

It defines 'Medium Enterprises' for the first time and seeks to integrate the three tiers of these enterprises, namely, Micro, Small and Medium. Establishment of specific Funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes programmes for this purpose, progressive credit policies and practice, more effective mechanism for mitigating the problems of delayed payments to MSEs, etc. are some of the other features of this Act. The Ministry of MSMEs has also taken a view, in the light of liberalized provisions of the MSMED Act, 2006 to do away with the restrictive 24% ceiling prescribed for equity holdings by industrial undertakings, whether domestic or foreign, in the erstwhile Small Scale Industries (SSIs).

This coupled with an expected legislation on Limited Liability Partnership introduced in the Parliament by the Ministry of Corporate Affairs is expected to pave the way for greater corporatization of the Small and Medium Enterprises thereby enhancing their access to equity and other funds from the markets of these products in keeping with the global standard.

1.4 FINANCING MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA

Small and Medium Enterprises contribute to about 90% of the business worldwide. They employ over 50% of the world’s workforce. In India Micro and Small Enterprises (MSEs) in agriculture, industry and services sectors have a function in value addition, employment generation, export earnings, equitable distribution of national income, regional dispersal of the industries, productive utilization of entrepreneurial skill and capital.

1.4.1 FINANCE

Finance is a key input of production, distribution and development. It is therefore, aptly described as the life-blood of industry and is a pre-requisite for accelerating the process of industrial development.
I (i). Types of Industrial Finance

Entrepreneurs require three types of finances, viz., short-term and long-term, medium-term and long-term finances, the below chart shows types of industrial finance.

Chart 1.4
Types of Industrial Finance

- Bank Credit
- Trade Credit
- Installment Credit
- Customer Advances

- Issue of shares
- Issue of Debenture
- Loans from banks.
- Public Deposits

- Issue of Debentures
- Issue of shares
- Loans from financial institutions

Short-Term Finance (STF)

Short-Term Finance usually refers to the funds required for a period of less than one year. Short-term finance is usually required to meet variable, seasonal or temporary working capital requirements.

Borrowing from banks is a very important source of short-term finance. Other important sources of short-term finance are trade credit, installment credit and customer advances. For example, to buy raw materials or to pay wages to the labour or to meet any other day to day requirement.

Medium-Term Finance (MTF)

The period of one year to five years may be regarded as a medium term. Medium-term finance is usually required for permanent working capital, small expansions, replacements, modification, etc. Medium term finance may be raised by:

- Issues of shares;
- Issue of debentures;
- Borrowing from banks and other financial institutions;
- Ploughing back of profits (by existing concerns).
Chapter 1

Introduction

Long-term finance (LTF)

Period exceeding 5 years is usually regarded as long-term, long-term finance is required for procuring fixed assets, for the establishment of a new business, for substantial expansion of existing business, modernization etc. The important sources of long-term finance are:

- Issue of shares;
- Issue of debentures;
- Loans from financial institutions;
- Ploughing back of profits (for existing concerns).

1.4.2 SOURCE OF FINANCE

Financial Management of MSMEs does not have the size to support the competence they need. Operational skills, including accounting and finance, business planning, marketing and human resource management etc., Financial Management services to their MSMEs borrowers give them holistic guidance and support and nurturing them. Banks could set up special industrial and management consultancy departments to address functional inadequacies and market gaps. Sources of finance can be classified in two: i) Non institutional sources, and ii) Institutional sources.

**Non institutional Sources of Finance:** Loans from individuals, for example, loans taken from money lenders, friends, relatives, etc. are called non institutional sources of finance.

**Institutional Sources of Finance:** Institutional sources of finance include organizations or establishments which are set up to provide finance. They have a specialized objective and that is provision of finance. The financial institutions can be broadly categorized into All India institutions and state level institution, depending upon the geographical coverage of their operations.

National level institutions like India Development Banks, IDBI, SIDBI, and IFCI: specialized financial institutions like ICICI, IVCF Venture funds, investment institutions like LIC, GIC, and UTI. State level institutions broadly consist of State Financial Corporation’s (SFCs) and State Industrial Development Corporations.
The development of small scale industries depends upon various factors like availability of raw material, skilled labour, advanced technical knowhow, adequate, easy and cheap finances and right types of management. Non availability of finances at the right time and in right quantities which low rate of interest poses a serious threat to the development of small scale industries. The MSMEs main sources of finances are promoters, institutional agencies, and non institutional agencies. Because of their poor financial background, the capacity of the promoters to invest in their respective units is limited.

The non institutional agencies are always reluctant to invest in these small scale industries because of their limited earning capacity as well as poor reputation of the entrepreneurs. The following chart shows institutional framework for the MSMEs in India.

**Chart 1.5**
Institutional Framework for MSMEs in India

<table>
<thead>
<tr>
<th>Central Government</th>
<th>State Government</th>
<th>Other Agencies</th>
<th>Financial Institutions</th>
<th>Industry Associations</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>SSI Board</em></td>
<td><em>DI</em></td>
<td><em>TCOs</em></td>
<td><em>SIDBI</em></td>
<td><em>FASSI</em></td>
</tr>
<tr>
<td><em>SIDCO</em></td>
<td><em>DICs</em></td>
<td><em>NGO</em></td>
<td><em>CBs</em></td>
<td><em>CII</em></td>
</tr>
<tr>
<td><em>RTCs</em></td>
<td><em>SFCs</em></td>
<td><em>KVIC</em></td>
<td><em>CO operative</em></td>
<td><em>FICCI</em></td>
</tr>
<tr>
<td><em>CFTI</em></td>
<td><em>SSIDC</em></td>
<td><em>EDII</em></td>
<td><em>Banks</em></td>
<td><em>CWEI</em></td>
</tr>
<tr>
<td><em>NSIC Ltd.</em></td>
<td></td>
<td></td>
<td></td>
<td><em>NABARD</em></td>
</tr>
</tbody>
</table>

1.4.3 **FINANCIAL SUPPORT FOR MSMEs**

India has a very intensive financial system with 170 commercial banks of which 166 are scheduled commercial banks including 86 regional rural banks as of March 2009. These Scheduled Commercial Banks (SCBs) have 80,325 branches, out of which 31,796 branches are in rural areas. Apart from this there are and 97,782 co-operative banks in India out of which only 1,721 are operating in urban areas the rest being in rural areas.
1.4.3.1 CREDIT GUARANTEE FUND SCHEME FOR MICRO, SMALL AND MEDIUM ENTERPRISES

Government launched the credit guarantee fund scheme for micro and small enterprises in August 2000, with the objective of making available credit to MSEs, particularly micro enterprise, for loans extended without collateral third party guarantees. The scheme is being operated by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) set up jointly by the Government of India and SIDBI. Credit is the most important input for sustained growth of MSMEs and its employment for gathering fixed and working capital needs possess the leading problems. Credit provided for formation of fixed assets like land, building, plant and equipment is called long term credit.

Credit card scheme has been provided to SSI where they can credit up to Rs.10 lakhs. Apart from this, credit facilities up to maximum of Rs.25 lakhs are provided through credit guarantee fund trust in association with Small Industries Development Bank of India (SIDBI) and Government of India. The over shifting concerns of the MSMEs remains that of assessing the sufficient credit. The scheme covers collateral-free credit facility term loan and working capital including non fund based working capital extended by eligible lending institutions to new and existing Micro and Small Enterprises up to Rs. 50 lakh per borrowing unit. The guarantee cover is up to 75% of the credit sanctioned subject to maximum guarantee limit of Rs.37.50 lakh. The guarantee cover is up to 80 % for (i) loans up to Rs.5 lakh extended to Micro Enterprises; and (ii) Micro and Small Enterprises operated and owned by women.

1.4.4 OUTSTANDING BANK CREDIT TO MICRO, SMALL AND MEDIUM ENTERPRISES

Releasing the importance of micro, small and medium enterprises, the credit rendered to this sector is treated as priority sector lending. It is mandatory for banks to provide at least 40% of their advances to this sector.
Table 1.3
Outstanding Bank Credit to Micro, Small and Medium Enterprises by SCBs
(Scheduled Commercial Banks)

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Sector Banks</th>
<th>Private Sector Banks</th>
<th>Foreign Banks</th>
<th>All Scheduled Commercial Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>1,511.374</td>
<td>469.118</td>
<td>154.892</td>
<td>2,135.386</td>
</tr>
<tr>
<td>2009</td>
<td>1,914.083</td>
<td>466.563</td>
<td>180.634</td>
<td>2,561.280</td>
</tr>
<tr>
<td>2010</td>
<td>2,763.189</td>
<td>648.247</td>
<td>211.470</td>
<td>3,622.907</td>
</tr>
<tr>
<td>2011</td>
<td>3,694.30</td>
<td>881.16</td>
<td>209.81</td>
<td>4,785.27</td>
</tr>
</tbody>
</table>

Source: Scheduled Commercial Banks

Graph 1.2
Outstanding Bank Credit to MSMES

The outstanding bank credit to Micro, Small and Medium Enterprises by all Scheduled Commercial Banks, as at the end of the March 2011 is Rs.4,785.27 crores as compared to Rs.2,135.386 at the end of 2008. The outstanding credit for the last four years to the MSMEs is given in table 1.3. Credit flow from Public Sector Banks (PSBs) to this sector has increased from Rs. 1,511.374 crore at the end of March 2008 to Rs. 3,694.30 crore at the end of March 2011.
Table 1.4
Credit Flow to MSMEs from Public Sector Banks (PSBs) (Rs. In Crores)

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Year</th>
<th>As at the end of March</th>
<th>% to NBC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2005</td>
<td>68,000</td>
<td>9.5</td>
</tr>
<tr>
<td>2</td>
<td>2006</td>
<td>82,434</td>
<td>8.1</td>
</tr>
<tr>
<td>3</td>
<td>2007</td>
<td>1,02,550</td>
<td>7.8</td>
</tr>
<tr>
<td>4</td>
<td>2008</td>
<td>1,51,137*</td>
<td>11.1</td>
</tr>
<tr>
<td>5</td>
<td>2009</td>
<td>1,91,307*</td>
<td>11.3</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India.

Note: Figures with * indicate credit to MSMEs in 2008 and 2009.

The public sector banks to MSMEs had augmented from 68,000 crore in 2005 to Rs.1, 91,307 crore in 2009 (Table 1.4), the share of the credit to the MSMEs in the NBC had declined from 9.5% at the end of March., 2005 to 11.3% march, 2009. The share of MSMEs in NBC has, however, extensively improved to 11.1% in 2008 and 11.3% in 2009.

1.4.4.1 ACCESS TO CREDIT

Augment in credit outstanding to the sector, access to adequate and timely credit at a reasonable cost is a critical problem faced by this sector. The statistics compiled in the Fourth Census of MSMEs September 2009 revealed that only 5.18% of the units both registered and unregistered had availed themselves of finance through institutional sources, 2.05% from non-institutional sources; the majority of units i.e. 92.77% had no finance or depended on self-finance. Thus, the extent of financial exclusion in the sector is very high. But, this is not entirely unexpected because if one looks at the financial exclusion in our country in general, then MSMEs cannot remain unaffected by it. But there is a need to bridge this gap through enabling policies and the Government of India (GOI) needs to play a catalytic role to cater to the needs of this sector.
Table 1.5
Financial Exclusion in MSMEs

<table>
<thead>
<tr>
<th>Institutional Sources</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non Institutional Sources</td>
<td>2.05%</td>
</tr>
<tr>
<td>Self Finance/No Finance</td>
<td>92.77%</td>
</tr>
</tbody>
</table>

Source: Highlights of 4th Census on MSMEs

Graph 1.3
Financial Exclusion in MSMEs

1.5 FACILITIES FOR MSMES

The Ministry of Small and Medium Enterprises is answerable for initiating appropriate for initiating suitable policy events, programmes and schemes for the promotion of MSMEs. The MSMEs has engaged the attention of policy makers, planners and Government of India. The facilities can be categorized into three: policy initiatives, institutional support, and credit dispensation as shown in figure 1.2.
i) Policy initiatives

Several policy initiatives and procedures have accordingly been taken up by the Government to enable the micro and small enterprises enhance their competitive strength, address the challenges of competition and avail themselves of the benefits of the global markets.
Chapter 1

The Central as well as the State Governments have devised a variety of Schemes for the development of suitable infrastructure to encourage the growth of the MSME sector. Starting from the Industrial Policy Resolution in 1948, the Central Government has come out with a total of six resolutions and statements. All the policies gave a thrust to the promotion of small units through various incentives. These incentives pertained to financial, fiscal, and infrastructure related measures targeted at achieving the Growth of MSME sector. Economic reforms initiated since 1991 facilitate the growth of the MSME Sector. A cluster is a sectoral and geographical concentration of enterprises. It may be a local agglomeration of enterprises, which produce and sell a range of related and complimentary products and services. Cluster provides an active base for business and social interaction. The Economies of agglomeration ensure a network of suppliers that provide raw materials, equipment, machinery, spares, repair and other services. Marketing of products is a serious problem faced by small units. The marketing infrastructure, as available for SMEs, consists of a combination of agencies and incentives as shown below.

i) National Small Industries Corporation (NSIC) to promote the marketing of Micro, Small Enterprises (MSEs) products to Government Departments under the preferential purchasing policy. ii) Training programes for export packing. iii) Export Promotion Councils. iv) Marketing Development Assistance (MDA) to reimburse expenses incurred by SME delegations that visit foreign countries with a view to promote exports.

ii) Institutional Support

Financial Institutions serve as a representative of socio economic activities. They incessantly strive to promote quick industrialization and development of entrepreneurial activities in the society. The financial institutions can be broadly categorized into All India institutions and state level institutions, depending upon the geographical coverage of their operations. National level institutions include (India Development Banks) IDBI, SIDBI, IFCI; while specialized financial institutions include ICICI, IVCF Venture funds, investment institutions like LIC, GIC, and UTI. State level institutions broadly consist of State Financial Corporation’s (SFCs) and State Industrial Development Corporations.
The development of small scale industries depends upon various factors like availability of raw material, skilled labour, advanced technical knowhow, adequate, easy and cheap finances and right types of management.

Non availability of finances at the right time and in right quantities with low rate of interest poses a serious threat to the development of small scale industries.

The MSMEs main sources of finances are promoters, institutional agencies, and non institutional agencies. Because of their poor financial background, the capacity of the promoters to invest in their respective units is limited. The Non - Institutional Agencies are always reluctant to invest in these small scale industries because of their limited earning capacity as well as poor reputation of the entrepreneurs.

iii) Credit Dispensation

Credit dispensation means availability of timely and adequate financial assistance is sine qua non for the growth of any sector, including MSMEs. Banking occupies one of the most important positions in the modern economic world. It is necessary for trade and industry. Commercial bank is important channels of credit dispensation to the sector and plays a pivotal role in financing the working capital requirements, besides providing term loans. At the state level, State Financial Corporation's (SFCs) and the State Industrial Development Corporations (SIDCs) are the main source of long term finance for the MSME sector. Financial institutions have traditionally been the major source of long term funds for the economy.

There are different financial institutions to cater to the financial needs of the small scale industries. Working capital financial needs are mostly met by the commercial banks, regional rural banks and cooperative banks. These institutions may also participate in the long term financial needs along with State Financial Corporation (SFC), but on a limited scale. Financial assistance is also available to the small scale sector from the state Small Industries Development Corporation (SSIDC). At the national level, the Industrial Development Bank of India (IDBI), the Small Industrial Development Bank of India (SIDBI), National Bank for Agriculture and Rural Development (NABARD) and other national level development bank provide refinance facilities to banks and other grassroots level agencies for financing small scale industries.
The State Financial Corporation (SFC) Act, 1951 was set up mainly to finance small and medium scale units. Their area of operation is generally restricted to the concerned states; SFCs also assist small scale units for their modernization and technology upgradation programmes by providing soft loans, restructuring the sick small scale units through rehabilitation schemes and through equity type assistance under Small Industrial Development Bank of India (SIDBI) seed capital schemes.

Financial inclusion is an important process to attain the goal of inclusive growth. Accordingly, the Reserve Bank of India has made sustained efforts to increase the penetration of formal financial services in unbanked areas, while continuing with its policy of ensuring adequate but viable flow of credit to priority sectors of economy.

1.5.1 PRIORITY SECTOR IN INDIA

Both public sector banks and private sector banks play a very important position in economic development by financing the priority sector of the economy.

The National Credit Council held in July 1968 emphasized that commercial banks should increase their involvement in the financing of priority sectors. The priority sector includes Agriculture, Small Scale Industries, Industrial Estates, Road and water transport operators, Retail trade and small business, professional and self employed persons, Education and Housing loans.

### Table 1.6

<table>
<thead>
<tr>
<th>Year</th>
<th>(Public Sector Banks TPS Advances Rs.)</th>
<th>Private Sector Banks TPS Advances (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2003</td>
<td>2,03,095</td>
<td>36,705</td>
</tr>
<tr>
<td>2003-2004</td>
<td>2,44,456</td>
<td>48,920</td>
</tr>
<tr>
<td>2004-2005</td>
<td>3,10,093</td>
<td>69,384</td>
</tr>
<tr>
<td>2005-2006</td>
<td>4,09,748</td>
<td>1,06,586</td>
</tr>
<tr>
<td>2006-2007</td>
<td>5,21,180</td>
<td>1,43,768</td>
</tr>
<tr>
<td>2007-2008</td>
<td>6,08,963</td>
<td>1,63,223</td>
</tr>
</tbody>
</table>

Source: RBI (Reserve Bank of India)
Table 1.6 depicts that priority sector advances of private sector banks increased from Rs. 36,705 crore to 1,63,223 crore. The Public Sector Banks increased from Rs.2, 03,095 crore to Rs.6, 08,963 during 2002-2003 to 2007-2008.

1.5.2 VARIOUS ORGANIZATIONS FOR ASSISTING MICRO, SMALL AND MEDIUM ENTREPRENEURS

Various organizations have been set up by the Central and State Governments and banks to support the development of the Micro, Small and Medium Enterprises. The main organizations are as follows:

I) Central Government
   b. Small industries Development Organization (SIDO).
   c. Micro, Small and Medium Industries Services Institute.
   e. National institute for Micro, Small and Medium Enterprises (NIMSME).
   f. Entrepreneurship Development Institute of India.

II) State Government
   a. District Industrial Centers (DIC).
   b. State Financial Corporation’s (SFCs).
   c. State Industrial Development Corporations State Industrial Investment Corporations (SIDC/SSIC).
   d. State Small Industries Development Corporation (SSIDC).
   e. Khadi and Village Industries Commission (KVIC).

III) Financial Institutions and Banks
   a. Small industries Development Bank of India (SIDBI).
   b. Commercial Banks.
   c. Regional Rural Banks.
   d. Cooperative Banks.
   e. National Bank for Agriculture and Rural Development (NABARD).

IV) Organizations Promoted by the Government /Banks/ Financial Institutions
   a. Technical Consultancy Organizations in various states.
   b. India SME Technology Services Ltd.
   c. SIDBI Venture Capital Ltd.
   d. Credit Guarantee Fund Trust for Micro, Small and Medium Industries.
   e. India SME Asset Reconstructing Company (ISARC).
1.6 MICRO FINANCE

Microfinance is the supply of loans, savings, and other basic financial services to the poor, as these financial services usually involve small amounts of money. Small loans, small savings, etc.

Microfinance is a universal term to describe financial services to low-income individuals or to those who do not have access to typical banking services. In the late 1970's the concept of microfinance had evolved. Although, microfinance has a long history from the beginning of the 20th century we will concentrate mainly on the period after 1960. According to International Labor Organization (ILO), Microfinance is an economic development approach that involves providing financial services through institutions to low income clients. Microfinance is gathering energy to become a significant power in India, Microfinance is an established approach for the development of the ample, being practiced in almost all parts of the world in different forms and models like, Grameena Banks, individual banking etc. Microfinance is equally beneficial at both the ends, whereas at borrower's end it provides the small amount of money as required by them without any collateral security, at bank's end it provides a risk free lending with the repayment rate of loan goes as high as 95% and even more. Government has launched scheme under the Micro Finance Programme of Small Industrial Development Bank of India (SIDBI) in March 2004.

Government provides fund of Micro Finance Programme to SIDBI under a Portfolio Risk Fund (PRF), which is used for security deposit requirement of the loan amount from the MFIs and NGIs. As on 31st March 2007, Government released an amount of Rs.15 crore towards Portfolio Risk Fund. As on 31st March 2007, cumulative loan amount of Rs. 142.17 crore was provided to MFIs and NGOs under the scheme, thereby benefiting 3.94 persons.

The Self Help Group (SHG) bank linkage program initiated by NABARD showed substantial disparities. For the Financial inclusion of the weaker section of society, the poor and the other low-income earning people, NABARD started SHG bank linkage scheme in 1992 as a pilot project by linking 500 SHGs with banks. The SHG Bank Linkage program has an optimistic impact on the participants by forming groups and by their own team efforts and their very own small savings, Bank Loans Disbursed to SHGs agency wise position are presented in table 1.7.
Table 1.7
Bank Loans Disbursed to SHGs

<table>
<thead>
<tr>
<th>Agency</th>
<th>Year</th>
<th>Total Loans Disbursed by Banks to SHGs during the year</th>
<th>Per SHG Loan Disbursed (Rupees)</th>
<th>Out of Total: Bank Loans disbursed to SHGs under NGSY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No. of SHGs</td>
<td>% Share</td>
<td>Amount</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>2009-10</td>
<td>9,77,521</td>
<td>61.6</td>
<td>9,780.18</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>2009-10</td>
<td>3,76,797</td>
<td>23.7</td>
<td>3,333.20</td>
</tr>
<tr>
<td>Co-operative Banks</td>
<td>2009-10</td>
<td>2,32,504</td>
<td>14.7</td>
<td>1,339.92</td>
</tr>
<tr>
<td>Total</td>
<td>2009-10</td>
<td>15,86,822</td>
<td>100.0</td>
<td>14,453.30</td>
</tr>
</tbody>
</table>

Source: Status of microfinance in India 2011-2012.

The data shown that Commercial Banks accounted for 61.6% while the Regional Rural Banks 23.7% and Co-operative Banks 14.7% respectively in loan disbursement per SHG, Commercial Banks tapped. This proposes that Regional Rural Banks and Co-operative Banks need to expand their financial assistance to SHGs.

The MFIs operate under various legal forms,

- NGO MFIs Registered under Societies Registration Act, 1860 and Indian Trust Act, 1880.
- Cooperative MFIs Registered under State Cooperative Societies Act or Mutually Aided Cooperative Societies Act (MACS) or Multi State Cooperative Societies Act, 2002.
- NBFC MFIs incorporated under Section 25 of Companies Act, 1956 (not for profit).
- NBFC MFIs incorporated under Companies Act, 1956 and registered with RBI.

Micro Finance Institutions (MFIs) have been availing themselves of bulk loans from banks for on-lending to groups and other small borrowers. On the basis of returns received from banks for the year 2009-2010, SIDBI, 21 Public Sector Commercial Banks, 14 private sector Commercial Banks, 04 foreign Commercial Banks, and one Co-Operative Bank had reportedly financed MFIs for on-lending to groups and other small borrowers to promote microfinance activities details of Bank Loan disbursement and outstanding against MFIs as on 31st March are given in Table 1.8.
### Table 1.8
**Bank Loans to MFIs**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Years</th>
<th>NO.MFIs</th>
<th>Loans Disbursed by Banks/FIs to MFIs during 2009-2010</th>
<th>Bank Loans outstanding against MFIs as on 31st March 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Amount in lakh)</td>
<td>(Amount in lakh)</td>
</tr>
<tr>
<td>CBs (Public, Private and Foreign)</td>
<td>2008-09</td>
<td>522</td>
<td>3,718.93</td>
<td>1,762</td>
</tr>
<tr>
<td></td>
<td>2009-10</td>
<td>645</td>
<td>8,038.61</td>
<td>1407</td>
</tr>
<tr>
<td></td>
<td>% growth</td>
<td>23.5</td>
<td>116.2</td>
<td>(20.1)</td>
</tr>
<tr>
<td>RRBs</td>
<td>2008-09</td>
<td>59</td>
<td>13.40</td>
<td>153</td>
</tr>
<tr>
<td></td>
<td>2009-10</td>
<td>46</td>
<td>24.14</td>
<td>103</td>
</tr>
<tr>
<td></td>
<td>% growth</td>
<td>(22)</td>
<td>80.1</td>
<td>(32.27)</td>
</tr>
<tr>
<td>Cooperative Banks</td>
<td>2008-09</td>
<td>0</td>
<td>0.00</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>2009-10</td>
<td>0</td>
<td>0.00</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>% growth</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Total All Banks</td>
<td>2008-09</td>
<td>581</td>
<td>3,732.33</td>
<td>1,915</td>
</tr>
<tr>
<td></td>
<td>2009-10</td>
<td>691</td>
<td>8,062.74</td>
<td>1,513</td>
</tr>
<tr>
<td></td>
<td>% growth</td>
<td>18.9</td>
<td>116.5</td>
<td>(21.0)</td>
</tr>
<tr>
<td>SIDBI</td>
<td>2009-10</td>
<td>88</td>
<td>2,665.75</td>
<td>146</td>
</tr>
<tr>
<td>Total of all Banks and SIDBI to MFIs</td>
<td>2009-10</td>
<td>779</td>
<td>10,728.49</td>
<td>1659</td>
</tr>
</tbody>
</table>

Source: Status of microfinance in India 2011-2012: a NABARD publication
Note: NA – Not Applicable/Not available.

The following table shows the development under Micro Finance Institution (MFI) Bank Linkage programme for the year 2008-2009 and 2009-2010. During the year 2009-10, Small Industrial Development Bank of India (SIDBI) had financed to 88 MFIs with financial assistance of 2,665.75 crore and the loan outstanding against 146 MFIs as on 31st March 2010 was 3,808.20 crore.
As such the total exposure of banks and financial institutions to Micro Finance Institutions (MFIs) as on 31st March 2010 was to the tune of 13,955.74 crore. Further, during the year 2009-10, SIDBI had financed to 88 MFIs with financial assistance of 2,665.75 crore and the loan outstanding against 146 MFIs as on 31 March 2010 was 3,808.20 crore. As such the total exposure of banks and financial institutions to MFIs as on 31st March 2010 was to the tune of 13,955.74 crore. The banks had financed to 691 MFIs with bank loans of 8,062.74 crore as against 581 MFIs with bank loans of 3,732.33 crore during 2008-09, representing growth rate of 116.5 per cent in bank loans disbursed. As on 31st March 2010, the outstanding bank loans to 1,513 MFIs was 10,147.54 crore as against 5,009.09 crore to 1915 MFIs as on 31st March 2009, showing doubling of bank loan over the previous year.

1.7 COMPARISON OF THE MSMES WITH THE OVERALL INDUSTRIAL SECTOR

The MSME sector has maintained a higher rate of growth vis-à-vis the overall industrial sector as is be clear from the compound growth rates of production for both the sectors during last five years as incorporated in the Table 1.9 given below.

Table 1.9

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth Rate of MSME Sector (%)</th>
<th>Overall Industrial Sector (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>8.68</td>
<td>5.70</td>
</tr>
<tr>
<td>2003-04</td>
<td>9.64</td>
<td>6.90</td>
</tr>
<tr>
<td>2004-05</td>
<td>10.88</td>
<td>8.40</td>
</tr>
<tr>
<td>2005-06</td>
<td>12.32</td>
<td>8.10</td>
</tr>
<tr>
<td>2006-07</td>
<td>12.60</td>
<td>11.5</td>
</tr>
<tr>
<td>2007-08</td>
<td>13.00</td>
<td>8.00</td>
</tr>
<tr>
<td>2008-09</td>
<td>13.56</td>
<td>8.56</td>
</tr>
</tbody>
</table>

Source: Centre for Industrial and Economic Research (CIER).

From the Table 1.9 it is observed that the growth rate of MSMEs was 8.68 during 2003-04 and it reached 13.56 during 2008-09, whereas the overall industrial sector growth rate was 8.56 in 2008-09.
1.8 SIZE OF THE REGISTERED MSMES

The size of the registered MSMEs is provisionally estimated to be 15,52,491 of the total working enterprises, the proportions of Micro, Small and Medium Enterprises were 95.05%, 4.74% and 0.21% respectively. This comprises 66.67% manufacturing enterprises and 33.33% service enterprises. Particulars in respect of MSMEs are given in the table 1.10.

Table 1.10
Size of the Registered MSMEs

<table>
<thead>
<tr>
<th>Particulars of working enterprises</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Manufacturing Enterprises</td>
<td>9,74,609</td>
<td>57,666</td>
<td>2,828</td>
<td>10,35,103</td>
</tr>
<tr>
<td>Number of Service Enterprises</td>
<td>5,01,072</td>
<td>15,915</td>
<td>402</td>
<td>5,17,389</td>
</tr>
<tr>
<td>Total Number of MSMEs</td>
<td>1,47,5681</td>
<td>73,581</td>
<td>3,230</td>
<td>15,52,492</td>
</tr>
<tr>
<td>% age Distribution of Total Units</td>
<td>95.05</td>
<td>73.74</td>
<td>0.21</td>
<td>100.00</td>
</tr>
<tr>
<td>%age Share of Manufacturing Units</td>
<td>94.16</td>
<td>5.57</td>
<td>0.27</td>
<td>66.67</td>
</tr>
<tr>
<td>%Age Share of Service Units</td>
<td>96.85</td>
<td>3.08</td>
<td>0.08</td>
<td>33.33</td>
</tr>
</tbody>
</table>
Graph 1.5 represents the diagrammatic presentation of MSMEs, it reveals that of the total number of MSMEs the share of manufacturing enterprises, dominates over the service enterprises. The percentage of share is 66.67% as against 33.33%.

1.9 SICKNESS IN MSMEs

The Micro, Small and Medium Enterprises (MSMEs) are aptly regarded as the backbone of the Indian economy. Industrial sickness is a universal phenomenon the problem of sickness in industries has become very acute in India. It has adversely affected the health of the industrial sector in particular and the economy in general sickness is more severe in a mixed economy like India because here, in the name of employment, balanced regional growth, public welfare, import substitution, checking concentration of wealth.

Despite the extraordinary synchronized global slump, small scale industries acted as a prime mover in slipping up industrial growth, enhancing poverty alleviation and bringing about sustainability. There is growing recognition worldwide that MSMEs have an important role to play in the present context given their greatest resource use efficiency, capacity for employment generation, technological innovation, promoting inter sectoral linkages, raising exports and developing entrepreneurship skills. Small units are more prone to failure and sickness than the medium and large scale industries. A sick unit on the other hand is one which is making losses, defaulting on the repayment of loans and payment to creditors.
Chapter 1
Introduction

A sick unit is one which fails to generate internal surplus on a contributing basis, to meet its obligations. Sickness in industrial units is a gradual process and does not develop suddenly.

In the initial stages, it gets reflected in the form of defects and mistakes in the unit's functional areas like production, finance, and management. Later, it is observed in the form of symptoms like irregular or unsatisfactory turnover in the account, slow and unsatisfactory movement of stocks, decline in production, sales, and profitability, frequent violation of terms and conditions, and asking or additional grants.

**Definition:**

The MSMEs should be considered as sick if it has, at the end of any accounting year, accumulated losses to or exceeding 50% of its peak net worth in the immediately preceding five accounting years. (Bihar Chambers of Commerce, Sep. 1989).

**Definition According to Companies (Second Amendment) Act, 2002**

Definition of a sick industrial company was changed by the Companies (Second Amendment) Act, 2002. According to this Act, a sick industrial company means an industrial company which has i) Accumulated losses in any financial year which are equal to 50% or more of its average net worth during four years immediately preceding such financial year ii) Fails to repay its debt within any three consecutive quarters on demanded made in writing for its repayment by a creditor or creditors of such company.

**1.9.1 PERCEPTION OF SICKNESS**

Sickness is easy to understand but difficult to define. It is a relative term in common idiom; a sick industry is one which is not healthy. A healthy unit is one which earns a reasonable return on capital employed and which builds up reserves after providing reasonable depreciation.

**Measures to Prevent Sickness**

The following measures are suggested to prevent sickness in small scale industries:

1. **Ensure that sickness is arrested at the incipient stage**

   A majority of units die in the second or third year of their existence. So, a programme of monitoring and nursing them during infancy is essential. The bank branch officials who are in constant contact with the business units should identify the units showing symptoms of sickness by effective monitoring.
The periodical financial data, stock statements and report on inspection of factory provide adequate signals about sickness. The bank officials should identify early warning signals and initiate corrective steps. Such steps may include timely financial assistance depending upon the need.

2. **Make professional management expertise easily available**

A well organized industry owes its success mainly to its efficient management. The management of finance and inventory by far is the most important of all. The small entrepreneurs must acquaint with the need for a better equity base, norms for allocation of the surplus to depreciation, retained profits and expansion programme so as to build their internal financial strength. The professional management expertise must be made available to small industry through the service institution. Again such service must be made available easily further such service should be prompt and efficient.

3. **Priority to small-scale units**

The Government can accord priority in the allocation of scarce raw materials, extend marketing assistance and grant concessions to small units which show better record of performance.

4. **Action for non-payment**

The Government should take panel action against the principals for non-payment for the supplied by small units.

5. **Rehabilitation package to cover various areas**

Some small units may become sick but may be potentially viable. Such units are taken for rehabilitation programme and to be effective, must provide for managerial efficiency, marketability of product, adequate availability of power, raw materials, etc. The programme of rehabilitation should be finalized and implemented speedily delay in these matters will aggravate the position and revival becomes difficult.

6. **Rehabilitation package**

At present the discretion of deciding the rehabilitation package is given only to the financial institutions. It is advisable to include officials of SSI Ministry and SSI association in the committee to finalize the package for individual units.
1.9.2 SIGNALS AND SYMPTOMS OF SICKNESS

It is clear from the definition of sickness that industrial sickness does not come to mind all of an unexpected in the life narration of an industrial unit. In fact, it is a continuing process with distinct stages taking from 5 to 7 years to corrode the health of a unit beyond cure. It starts with downturn in the industry whose continuation leads to setting in of industrial sickness.

1.9.2.1 SYMPTOMS OF SICKNESS

The determination of various signals over a long period of time becomes symptoms of sickness. The various symptoms ultimately reflect on plant performance, capacity utilization and financial ratios share market price and practices in the diverse areas of finance, production, marketing and labour relations in the industry (Raj, K.N. 1956) some of the important symptoms which differentiate industrial sickness.

1. Persisting shortage of cash.
2. Deteriorating financial ratios.
3. Widespread use of creative accounting.
4. Continuous tumble in the prices of the shares.
5. Delay and default in the payment of statutory dues.
6. Delay in the audit of annual accounts and Demoralization of employees and desperation among the top and middle management level.

However, the financial ratios, in all cases cannot be considered as accurate symptoms of industrial sickness mainly due to two reasons, First the sickness horizontal units, in order to present a better and resonance representation do a lot of window covering. Second, the financial data is available after a slit of one year. However, an early recognition of signals and symptoms of industrial sickness make the task of detecting sickness easier.

The particulars of sickness relating to MSMEs sector in India are presented in table 1.11
Table 1.11
Sickness in MSMEs of India during 1998 to 2008

<table>
<thead>
<tr>
<th>Year</th>
<th>Total MSMEs units in lakh</th>
<th>Sick units in Lakhs</th>
<th>Percentage</th>
<th>Total investment in crores</th>
<th>Sick units investment in crore percentage</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>89.71</td>
<td>2.21</td>
<td>2.46</td>
<td>1,33,242</td>
<td>3,857</td>
<td>2.89</td>
</tr>
<tr>
<td>1999</td>
<td>93.96</td>
<td>3.06</td>
<td>3.26</td>
<td>1,35,482</td>
<td>4,313.48</td>
<td>3.18</td>
</tr>
<tr>
<td>2000</td>
<td>97.15</td>
<td>3.04</td>
<td>3.13</td>
<td>1,39,982</td>
<td>4,608.43</td>
<td>3.29</td>
</tr>
<tr>
<td>2001</td>
<td>101.1</td>
<td>2.49</td>
<td>2.46</td>
<td>1,46,845</td>
<td>4,505.54</td>
<td>3.07</td>
</tr>
<tr>
<td>2002</td>
<td>105.21</td>
<td>1.77</td>
<td>1.68</td>
<td>1,54,349</td>
<td>4,818.95</td>
<td>3.12</td>
</tr>
<tr>
<td>2003</td>
<td>109.49</td>
<td>1.67</td>
<td>1.53</td>
<td>1,62,317</td>
<td>5,706.35</td>
<td>3.52</td>
</tr>
<tr>
<td>2004</td>
<td>113.95</td>
<td>1.43</td>
<td>1.25</td>
<td>1,70,219</td>
<td>5,772.64</td>
<td>3.39</td>
</tr>
<tr>
<td>2005</td>
<td>118.59</td>
<td>1.38</td>
<td>1.16</td>
<td>1,78,699</td>
<td>5,380.13</td>
<td>3.01</td>
</tr>
<tr>
<td>2006</td>
<td>123.42</td>
<td>1.26</td>
<td>1.02</td>
<td>1,88,113</td>
<td>4,981.13</td>
<td>3.64</td>
</tr>
<tr>
<td>2007</td>
<td>261.01</td>
<td>1.14</td>
<td>0.43</td>
<td>5,00,758</td>
<td>5,266.65</td>
<td>1.05</td>
</tr>
<tr>
<td>2008</td>
<td>272.79</td>
<td>0.85</td>
<td>0.31</td>
<td>5,58,190</td>
<td>13,849</td>
<td>2.48</td>
</tr>
<tr>
<td>2009</td>
<td>285.16</td>
<td>1.02</td>
<td>0.36</td>
<td>6,21,753</td>
<td>3,308.00</td>
<td>0.54</td>
</tr>
<tr>
<td>2010</td>
<td>298.08</td>
<td>0.77</td>
<td>0.26</td>
<td>6,93,835</td>
<td>5,231.15</td>
<td>0.75</td>
</tr>
<tr>
<td>2011</td>
<td>311.52</td>
<td>0.90</td>
<td>0.29</td>
<td>7,73,487</td>
<td>5,211.25</td>
<td>0.67</td>
</tr>
</tbody>
</table>

Source: Reserve bank of India. Handbook of statistics on Indian economy, 2011-12

It can be noticed from the table 1.11, that there were 89.76 lakh MSMEs units in 1988 and their number had steadily increased year by year to 311.52 lakh units in 2008. The percentage of sick units among the MSMEs was 2.46 % in 1998 and it gradually went up to 3.13% in 2000 and declined to a level of 0.29 % in 2008. The total investment in MSME units was reported at Rs.1, 33, 242 crore in 1998, of which investment incurred on sick units was worked out to 2.89 %.

Graph 1.6
Sickness in MSMEs during 1998 to 2008.
The percentage of investment of sick units was revolving in the range of 3.52% to 0.67% the maximum percentage of 3.64% was observed during the year 2006. In absolute terms, the investment in sick units increased year after year as there was an increase in investment in MSMEs units. The sickness among MSMEs units during 1998-2011 in percentage is shown in the graph 1.6.

1.9.2.2 STAGES OF INDUSTRIAL SICKNESS

- **HEALTHY UNIT** (All the four functional areas performing)
- **TENDING TOWARDS SICKNESS** (Initial aberration occurs)
  - Timely Corrective and Preventive Measure Taken
- **INCIPIENT SICKNESS** (Performance continues to deteriorate further)
  - Timely and Right Remedial Measure Taken
- **SICKNESS** (Functional Areas Become Inefficient)
  - Timely and Comprehensive Rehabilitation Programme Initiated
- **DEATH** (Closure of the unit)
1.10 VIABILITY OF SICKNESS SMALL ENTERPRISES

A unit may be regarded as potentially viable if it would be in a position, after implementing a relief package spread over a period not exceeding five years from the commencement of the package from banks, financial institutions, Government Central and State and other concerned agencies. The repayment period for restructured past debts should not exceed seven years from the date of implementation of the package. In the case of tiny decentralized sector units, the period of relief’s concessions and repayment period of restructured debts is not to exceed five and seven years respectively. Based on the norms specified above, the banks and financial institutions have to decide whether a sick Small Enterprise is potentially viable or not.

Viability of a unit identified as sick should be decided quickly and made known to the unit and others concerned at the earliest. The rehabilitation package should be fully implemented within six months from the date the unit is declared as ‘potentially viable’. While identifying and implementing the rehabilitation package, banks and Financial Institutions (FIs) are advised to do ‘holding operation’ for a period of six months. This will allow small-scale units to draw funds from the cash credit account at least to the extent of their deposit of sale proceeds during the period of such ‘holding operation’. The details of potentially sick in MSMEs sector in India are presented in Table 1.12.

Table 1.12
Potentially Viable Units of MSMEs in India during 1998 – 2008.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total MSMES Sick Units</th>
<th>Potentially Viable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units (in lakh)</td>
<td>Amount (in crore)</td>
</tr>
<tr>
<td>1998</td>
<td>2,21,586</td>
<td>3,857</td>
</tr>
<tr>
<td>1999</td>
<td>3,06,221</td>
<td>4,313.46</td>
</tr>
<tr>
<td>2000</td>
<td>3,04,235</td>
<td>4,608.43</td>
</tr>
<tr>
<td>2001</td>
<td>2,69,630</td>
<td>4,505.54</td>
</tr>
<tr>
<td>2002</td>
<td>1,77,336</td>
<td>4,819.82</td>
</tr>
<tr>
<td>2003</td>
<td>1,67,980</td>
<td>5,706.35</td>
</tr>
<tr>
<td>2004</td>
<td>1,43,366</td>
<td>5,772.64</td>
</tr>
<tr>
<td>2005</td>
<td>1,38,041</td>
<td>5,380.13</td>
</tr>
<tr>
<td>2006</td>
<td>1,26,824</td>
<td>4,981.13</td>
</tr>
<tr>
<td>2007</td>
<td>1,14,132</td>
<td>5,266.65</td>
</tr>
<tr>
<td>2008</td>
<td>85,187</td>
<td>13,849</td>
</tr>
</tbody>
</table>

Source: Ministry of Commerce and Industry, Government of India.
As per the data complained by the Reserve Bank of India (RBI) from the schedule commercial banks, the sickness in the MSMEs has decreased in the recent years. The number of sick units at the end of March, 1998 to 2008 is presented in the following table 1.12. The Table presents the details of potentially viable units among the sick units in the MSMEs sector. From the Table, it can be observed that among 2, 21, 536 micro, small medium units which were sick in 1998, 8.43% were rehabilitated since they were potentially viable. The absolute number of sick units declined gradually from 1, 67,980 units to 85,187 units in 2008. The total investment incurred on the sick units was on the increase barring a few years in which the investment on sick units was marginally less than the previous year.

It is striking to note that sickness in the MSMEs units had been declining gradually in absolute numbers, but the investment was on the increase. The percentage of sick units that can be rehabilitated was marginal.

Growing incidence of sickness of SSIs is yet another area of concern. When the sickness prolongs it leads to the closure of units and unemployment. The mortality of the SSI units is high. This has wider implication including locking of funds of the lending institutions, loss of scarce material resources and loss of employment. The data showing the position of sick micro, small and medium enterprises as at the end of March 2010 and 2011 is given below presented in the following Table 1.13.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total No. of Sick units</th>
<th>Potentially Viable</th>
<th>Non Viable</th>
<th>Viability yet to be decided</th>
<th>Units put under nursing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units</td>
<td>O/S</td>
<td>Units</td>
<td>O/S</td>
<td>Units</td>
</tr>
<tr>
<td>2010</td>
<td>77,723</td>
<td>523.15</td>
<td>9,160</td>
<td>964.73</td>
<td>64,403</td>
</tr>
<tr>
<td>2011</td>
<td>90,141</td>
<td>5,217.25</td>
<td>7,118</td>
<td>1,112.98</td>
<td>76,518</td>
</tr>
</tbody>
</table>

Source: RBI Annual Reports.

The number of units identified as potentially viable as a percentage to total sick MSE units was around 8% whereas the number the number of sick units found unviable was as high as 85%. The units placed under nursing as a proportion to the total number of sick units stood at 5.22%.
Chapter 1

All scheduled commercial banks were advised on May 4, 2009, to review and put in place MSE Loan policy, Restructuring rehabilitation policy and Non-discretionary One Time settlement scheme for recovery of non-performing loans, duly approved by their Board of Directors. Banks were advised in December 2009 to give wide publicity to non-discretionary one times settlement scheme for recovery of non-performing loans for the MSE sector by placing it on their bank’s web-site and through other possible modes of dissemination.

1.11 CAUSES AND CONSEQUENCES OF SICKNESS IN MSMES

The causes of sickness are basically related to the disorder in any one or more of the functional systems within the unit, viz., Production, Finance, Marketing and Personnel. The various causes of industrial sickness are classified into both internal and external. The internal causes are concerned with choice of location under estimation of cost of capital, overestimation of demand, mismanagement, and failure to introduce proper control techniques and tools, poor maintenance of machinery and equipment and poor public relations. External factors relate to the environment in which the industry works and over which the industry has no control, for example, Government policies regarding production, prices, and distribution, inadequate supply of essential inputs like raw material, power, and transport etc.

Sickness cannot be attributed to a single factor alone. In fact, it is the ultimate result of the cumulative effect of many factors causes working simultaneously which may be closely inter-related or even independent of each other. In view of the origin of the causes of industrial sickness, these are broadly classified into two categories:

1. External or Exogenous Causes.
2. Internal or Endogenous Causes.

1. External Causes

The external or exogenous causes which are beyond the control of the industry usually affect the industry group as a whole. There may be several external factors causing a unit sick and which may vary from time to time for industry to industry and even from one point of time to another for the same industry.
The important external factors causing industrial sickness include the following points, 1. Changes in the industrial policies of the Government from time to time, 2. Inadequate and untimely availability of necessary inputs like raw materials, power, transport and the skilled labour, 3. Lack and shrinkage of demand for the product, 4. Recessionary trends hovering in the economy, 5. Frequent industrial strikes and labour unrest, 6. Shortage of financial resources especially working capital, 7. Natural calamities like drought, floods, etc.

2. Internal Causes

Internal or endogenous causes are those which are within the control of the unit. These causes arise due to some internal deficiencies in various factors like finance, production, marketing and personnel the figure 1.3 shows factors of industrial sickness.

**Figure 1.3**
Factors of Industrial Sickness

<table>
<thead>
<tr>
<th>SOCIETY</th>
<th>WORKERS</th>
<th>SHAREHOLDERS</th>
<th>MANAGEMENT</th>
<th>SUPPLIES</th>
<th>GOVERNMENT</th>
<th>CONSUMER</th>
</tr>
</thead>
</table>

Five Basic Typologies of Industrial Sickness As Under

- **Operating**: arising from managerial inability to conduct current operations efficiently, or from managerial corruption.
- **Strategic**: arising from the lack of adaptability to long-term environmental changes. Staying-power deficiency: due to defective financial structure.
- **Still-born**: initially misconceived project.
- **Catastrophic**: caused by sheer bad luck.

1.11.1 REASONS FOR SICKNESS/INCIPIENT SICKNESS IN MSMES

The following table 1.14 indicates the reasons given by the units suffering from sickness incipient sickness. Lack of demand and shortages of working capital were the main reasons for sickness incipient sickness in the MSME Sector.
### Table 1.14
**Reasons for Sickness MSMES in India**

<table>
<thead>
<tr>
<th>Reasons for Sickness/Incipient sickness</th>
<th>Proportion of Sick/Incipient sick units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Lack of Demand</td>
<td>71.6%</td>
</tr>
<tr>
<td>2. Shortage of Working Capital</td>
<td>48.0%</td>
</tr>
<tr>
<td>3. Non Availability of Raw Material</td>
<td>15.1%</td>
</tr>
<tr>
<td>4. Power Shortage</td>
<td>21.4%</td>
</tr>
<tr>
<td>5. Labour Problems</td>
<td>7.4%</td>
</tr>
<tr>
<td>6. Marketing Problems</td>
<td>44.5%</td>
</tr>
<tr>
<td>7. Equipment Problems</td>
<td>10.6%</td>
</tr>
<tr>
<td>8. Management Problems</td>
<td>5.5%</td>
</tr>
</tbody>
</table>


**Note:** The total will exceed 100%, as some units have reported more than one reason.

### Graph 1.7
**Reasons for Sickness in Per Centage**

The above graph 1.7 shows marketing problems accumulated for 44.5%. Power shortage and non availability of raw material shared 21.4% and 15.1% respectively. Other reasons such as labour problems, equipment problems and management problems were found the minimal.
1.11.2 CORRECTIVE MEASURES

The growing incidence of sickness by size, region and industry followed by its far reaching socio-economic evil effects lends a strong realization of urgency to the solution of the sick industry problem in India. Therefore, the remedial measures to detect the fast spreading disease of sickness in industries are explained as follows:

1. Industrial sickness is not an overnight occurrence but it is a gradual process taking from 5 to 7 years corroding the health of a unit beyond cure.

Therefore, the identification and detection of sickness at the incipient stage is the first and foremost measure to detect and reduce industrial sickness. It is not wrong to argue that delayed identification of sickness could have been mainly responsible for such high proportion of non-viable units among the identified sick units. For identifying sickness at an early stage, appropriate yardsticks need to be evolved and developed.

2. It is a happy augury that now sick small-scale industries also fall within the purview of Board for Industrial and Financial Reconstruction (BIFR). It is better to open a separate division in BIFR to deal with sickness in small-scale industries because small-scale industries are characterized by different sets of problems and prospects as compared to medium and large scale industries.

3. In order to arrest sickness, at the incipient stage, banks and financial institutions should periodically review the accounts of small scale industries borrowers to identify units which are becoming sick or are prone to sickness. The Government of India and the Reserve Bank of India should be requested to direct commercial banks and financial institutions to provide information on sickness to the agencies like BIFR implementing the rehabilitation programmed to facilitate them to take appropriate action.

4. Last but not the least, past experiences indicates that many industrial units fall sick because of the improper opportunity scanning made by the entrepreneurs themselves. They start an industrial unit mainly to avail themselves of subsidies, concessions and incentives from the Government; we know that a small scale industry entrepreneur is like a one-man band. He and she may possess one or two or three ingredients requisites but not all. To quote, an entrepreneur may have land, building, machinery etc., but has no experience in functional areas like production and marketing.
Therefore, the necessity of the situation is to impart necessary knowledge to the entrepreneurs in various functional areas through like Entrepreneurship Development Programme (EDP).

1.11.3 SUGGESTIONS

The following are some of the suggestions that may be followed for making the sick units more viable and challenging in carrying out their functions for which they have been set up and make this sector more stable.

a) The Central and State Governments through their bodies institute for the development of sector should insulate the supply of essential inputs like raw material, Power, Coal, Oil, and other facilities like transport and marketing.

b) The Government should grant soft loans to their units at concessional rates of interest and reduce margins.

c) The sick enterprises should be given priority in the supply of raw materials.

d) It may be suggested that a special development bank may be set up exclusively in charge of catering the financial needs of small units. A high level of committee appointed by Reserve Bank of India (RBI) has also recommended for the same so that the small units need not approach several Financial Institutions.

e) The Central and State Governments should take the required measures to implement strictly their policies in regard to their protection offered to save it from being exploited or throughout from the market.

f) When the units have some problems, unfortunately, the management of sick units seldom brings their problems to the notice of banks thinking that they will spoil their image. But such an attitude amongst the management would further spoil their units. Therefore, there should be a close rapport between the banks and managements and the management should seek valuable advice and suggestion from banks.

1.12 GROWTH OF MSMES IN ANDHRA PRADESH

Andhra Pradesh has emerged as one of the most attractive investment destinations by attracting a large number of investors. The State is home to 4,099 large and medium scale industries with an investment of Rs.68,258 crore creating employment to 9,77,754 persons.
Chapter 1

Introduction

The state is ranked 3rd in the country with a total Rs. 1,51,454 crores of committed investment with an employment potential of 7,81,476 persons in the state after liberalization of industrial policy.

Small scale industries form an important part of Andhra Pradesh Economy.

The sector contributes around 6% of GSDP and employs close to 2.5 Lakh people. Andhra Pradesh will have many dynamic and profitable small scale industries.

Propelled by technological development and capability building, small scale units will flourish all over the state. To achieve the target growth rate of 9.5% (Agriculture: 5%, Industry: 10% and services: 11%), the state has to grow around 15% during 2011-2012.

Andhra Pradesh is one of the leading states as industrially well developed state in India. Andhra Pradesh State Financial Corporation (APSFC) is a term lending Institution established in 1956 for promoting Small and Medium Scale industries in the state under the provision of Andhra Pradesh State Financial Corporation Act, 1956.
During the study period of 2006-07 to 2010-11 the overall performance of APSFC has registered as a positive sign.

The sanctioned amount was increased to Rs.1,205.25 crore (24.83 %) in 2010-11 from Rs.704.75 crore (14.52 %) in the year 2006-07 and the disbursement to Rs.904.35 crore (25.95 per cent) from Rs.523.14 crore (15.01 %).

The recovery performance of the corporation has aggressively increased to Rs.902.38 crore (25.90 %) from Rs.515.95 crore (14.81 %).

Table 1.15
Andhra Pradesh State Financial Corporation (APSFC) in Sanctioned and Disbursement of Funds (Rs. In Crore) from MSMEs

<table>
<thead>
<tr>
<th>Years</th>
<th>Sanctioned amount</th>
<th>Disbursement amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>704.75(14.52)</td>
<td>523.14(15.01)</td>
</tr>
<tr>
<td>2007-08</td>
<td>1006.66(20.73)</td>
<td>662.70(19.02)</td>
</tr>
<tr>
<td>2008-09</td>
<td>885.67(18.24)</td>
<td>685.70(19.68)</td>
</tr>
<tr>
<td>2009-10</td>
<td>1052.38(21.68)</td>
<td>708.78(20.34)</td>
</tr>
<tr>
<td>2010-11</td>
<td>1205.25(24.83)</td>
<td>904.35(25.95)</td>
</tr>
<tr>
<td>Total</td>
<td>4854.71(100)</td>
<td>3484.67(100)</td>
</tr>
</tbody>
</table>

Source: Annual report of APSFC

Table 1.15 Indicates the APSFC overall progress of the sanctioned and disbursement of funds. It may be observed that sanctioned and disbursement funds have increased year to year. It they increased largely in the period of 2006-07 to 2010-11. In the year 2006-07 the APSFC sanctioned funds to MSMEs of Rs.704.75 crore (14.52 %) it was increased to Rs.1,006.66 crore (20.73 %) in 2007-08. The disbursements of APSFC in 2006-07 were Rs.523.70 crore (15.01 %) and they were increased to Rs.662.70 crore (19.02 %). The sanctions has been decreased in 2008-09 to Rs.685.75 crore (19.68 %).

Again the sanction amount was increased in 2009-10 and 2010-11 to Rs.1,052.38 crore (21.68 %) and Rs.1,205.25 crore (24.83 %) respectively and the disbursements were also increased to Rs.708.78 crore (20.34 %) and Rs.904.35 crore (25.95 %).
Table 1.16
Recovery Performance of APSFC from MSMEs
(Rs. In Crores)

<table>
<thead>
<tr>
<th>Years</th>
<th>Principal</th>
<th>Recovery Amount</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>371.18(15.57)</td>
<td>144.77(13.18)</td>
<td>515.95(14.81)</td>
</tr>
<tr>
<td>2006-07</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007-08</td>
<td>421.72(17.68)</td>
<td>200.22(18.22)</td>
<td>621.94(17.85)</td>
</tr>
<tr>
<td>2008-09</td>
<td>449.25(18.84)</td>
<td>208.83(19.00)</td>
<td>658.08(18.90)</td>
</tr>
<tr>
<td>2009-10</td>
<td>528.04(22.14)</td>
<td>257.08(23.40)</td>
<td>785.12(22.54)</td>
</tr>
<tr>
<td>2010-11</td>
<td>614.48(25.77)</td>
<td>287.90(26.20)</td>
<td>902.38(25.90)</td>
</tr>
<tr>
<td>Total</td>
<td>2384.67(100)</td>
<td>1098.80(100)</td>
<td>3483.47(100)</td>
</tr>
</tbody>
</table>

Source: Annual report of APSFC

Table 1.16 indicates that the recovery performance of APSFC from MSMEs assisted funds during the 2006-07 to 2010-11.

In the year 2006-07 the APSFC recovered Rs.515.95 crore (14.81 %) of which the principle amount was Rs.371.18 crore (15.57 %) and the interest amount Rs.144.77 crore (13.18 %). The total recovery amount of APSFC was increased year to year as Rs.902.38 crore (25.90 %).

Andhra Pradesh (A.P) boasts the highest level of fiscal incentive for investment in India. A study by rating agency Credit Rating Information Services of India Ltd., (CRISIL) on the state-wise growth trends in revenues and profitability of the Micro, Small and Medium Enterprises MSMEs in India has placed Andhra Pradesh among the top five states on 19th April 2011. The Crisil study also showed that 47 % of the Crisil-rated MSMEs in Andhra Pradesh had high ratings, which indicate their good performance and financial strength. The details of category-wise distribution of Small Scale Industries as on 31.3.09 in the state are depicted in Table 1.17. The number of MSMEs is represented in graph 1.8.
Table 1.17
Category-Wise Distribution of MSMEs as on 31.3.2009

<table>
<thead>
<tr>
<th>S. No</th>
<th>Category</th>
<th>No. of Units</th>
<th>Investment Rs. Crores</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Food Processing Beverage and Tobacco products</td>
<td>36,828</td>
<td>2292.52</td>
<td>3,74,529</td>
</tr>
<tr>
<td>2.</td>
<td>Cotton Textiles Wool, silk and synthetic fiber textiles Jute, hemp and Mesta textiles Hosiery and garments</td>
<td>3,105</td>
<td>264.57</td>
<td>49,099</td>
</tr>
<tr>
<td>3.</td>
<td>Wood products</td>
<td>12,769</td>
<td>113.53</td>
<td>71,259</td>
</tr>
<tr>
<td>4.</td>
<td>Paper products and printing</td>
<td>10,223</td>
<td>623.5</td>
<td>74,381</td>
</tr>
<tr>
<td>5.</td>
<td>Leather and leather products</td>
<td>3,512</td>
<td>44.86</td>
<td>18,790</td>
</tr>
<tr>
<td>6.</td>
<td>Rubber, plastic and petroleum products</td>
<td>8,016</td>
<td>873.39</td>
<td>69759</td>
</tr>
<tr>
<td>7.</td>
<td>Chemical and allied ends</td>
<td>7,363</td>
<td>1,213.14</td>
<td>1,11,816</td>
</tr>
<tr>
<td>8.</td>
<td>Mineral based industries</td>
<td>1,62,51</td>
<td>1,403.56</td>
<td>2,60,114</td>
</tr>
<tr>
<td>9.</td>
<td>Basic metal industries</td>
<td>2,648</td>
<td>460.78</td>
<td>43,741</td>
</tr>
<tr>
<td>10.</td>
<td>Metal products</td>
<td>15,501</td>
<td>919.98</td>
<td>1,31,294</td>
</tr>
<tr>
<td>11.</td>
<td>Machinery and equipment</td>
<td>11,696</td>
<td>576.78</td>
<td>88,940</td>
</tr>
<tr>
<td>12.</td>
<td>Electrical and electronic</td>
<td>5,420</td>
<td>631.6</td>
<td>64,448</td>
</tr>
<tr>
<td>13.</td>
<td>Transport equipment and parts</td>
<td>2,282</td>
<td>75.82</td>
<td>20,244</td>
</tr>
<tr>
<td>14.</td>
<td>Miscellaneous</td>
<td>3,471</td>
<td>167.81</td>
<td>29,208</td>
</tr>
<tr>
<td>15.</td>
<td>Repairs and services</td>
<td>14,634</td>
<td>254.65</td>
<td>74,306</td>
</tr>
<tr>
<td>16.</td>
<td>Others</td>
<td>4,454</td>
<td>587.84</td>
<td>50,087</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1,58,173</td>
<td>10,504.33</td>
<td>15,32,015</td>
</tr>
</tbody>
</table>

Source: Commissioner of Industries, Government of Andhra Pradesh.

As on 31.3.09, there were 1,58,173 MSMEs in the state with an investment of Rs. 10,504.33 crores, providing employment to 15,32,015 persons, the total exports from Andhra Pradesh during the year 2007-08 were to the tune of Rs. 57,343 crores. The share of software was 45.5%, and that of food products was 10.6%. The exports during 2006-07 were 40,601 crores and that during 2005-06 was 24,407.9 crores.
The State today has nearly 2,30,000 Small and Tiny units. But there were only 1,58,173 units as on 31.03.2009 majority, (23.28 %) of which were related to Food processing Beverage and Tobacco products.

The data showing the category wise growth pattern in exports of MSMEs is presented in the following Table 1.18.

Table 1.18
Growth Pattern in Exports of MSMEs

<table>
<thead>
<tr>
<th>S.No</th>
<th>Category</th>
<th>2007-08</th>
<th>2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agriculture and Agro Based, Forest</td>
<td>6,083</td>
<td>5,799</td>
</tr>
<tr>
<td>2</td>
<td>Leather, Animal, Marine Products</td>
<td>1,746</td>
<td>1,915</td>
</tr>
<tr>
<td>3</td>
<td>Mineral and Mineral Products</td>
<td>2,711</td>
<td>4,409</td>
</tr>
<tr>
<td>4</td>
<td>Handlooms and textiles</td>
<td>1,097</td>
<td>685</td>
</tr>
<tr>
<td>5</td>
<td>Handicrafts and Carpets</td>
<td>545</td>
<td>1,284</td>
</tr>
<tr>
<td>6</td>
<td>Drugs, Pharmaceuticals, Allied Chemicals and Plastic.</td>
<td>1,0787</td>
<td>14,850</td>
</tr>
<tr>
<td>7</td>
<td>Engineering Items</td>
<td>7,148</td>
<td>13,783</td>
</tr>
<tr>
<td>8</td>
<td>Electronics and Electronic Parts</td>
<td>1,104</td>
<td>2,371</td>
</tr>
<tr>
<td>9</td>
<td>Software</td>
<td>26,122</td>
<td>32,509</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>57,343</td>
<td>77,605</td>
</tr>
</tbody>
</table>

Source: Commissioner of Industries, Government of Andhra Pradesh
Dispersal of small scale units over the state

The 1,58,173 registered small scale units (2009) in the state are not evenly spread in the districts. While the concentration of units can be seen in the prosperous costal districts, the units are in the Telangana Region. The dispersal of units over the district is given in Table 1.19.

Table 1.19
Special Distribution of MSMEs in Andhra Pradesh

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>District</th>
<th>Up to 31-3-2009</th>
<th>Investment Rs. In Crores</th>
<th>Employment Nos.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Adilabad</td>
<td>1,953</td>
<td>80.56</td>
<td>21,365</td>
</tr>
<tr>
<td>2</td>
<td>Nizamabad</td>
<td>4,032</td>
<td>161.73</td>
<td>37,552</td>
</tr>
<tr>
<td>3</td>
<td>Karimnagar</td>
<td>5,174</td>
<td>216.61</td>
<td>48,798</td>
</tr>
<tr>
<td>4</td>
<td>Medak</td>
<td>5,159</td>
<td>1,008.83</td>
<td>69,976</td>
</tr>
<tr>
<td>5</td>
<td>Hyderabad</td>
<td>15,477</td>
<td>374.68</td>
<td>1,25,329</td>
</tr>
<tr>
<td>6</td>
<td>Rangareddy</td>
<td>21,551</td>
<td>2,961.44</td>
<td>2,32,175</td>
</tr>
<tr>
<td>7</td>
<td>Mahbubnagar</td>
<td>3,517</td>
<td>250.95</td>
<td>33,558</td>
</tr>
<tr>
<td>8</td>
<td>Nalgonda</td>
<td>7,823</td>
<td>456.05</td>
<td>82,203</td>
</tr>
<tr>
<td>9</td>
<td>Warangal</td>
<td>6,423</td>
<td>189.99</td>
<td>52,226</td>
</tr>
<tr>
<td>10</td>
<td>Khammam</td>
<td>4,812</td>
<td>331.31</td>
<td>44,904</td>
</tr>
<tr>
<td>11</td>
<td>Srikakulam</td>
<td>4,837</td>
<td>150.10</td>
<td>43,145</td>
</tr>
<tr>
<td>12</td>
<td>Vizianagaram</td>
<td>3,604</td>
<td>147.32</td>
<td>32,873</td>
</tr>
<tr>
<td>13</td>
<td>Visakhapatnam</td>
<td>10,746</td>
<td>646.87</td>
<td>94,067</td>
</tr>
<tr>
<td>14</td>
<td>East Godavari</td>
<td>8,582</td>
<td>549.48</td>
<td>82,659</td>
</tr>
<tr>
<td>15</td>
<td>West Godavari</td>
<td>7,159</td>
<td>351.84</td>
<td>65,166</td>
</tr>
<tr>
<td>16</td>
<td>Krishna</td>
<td>9,246</td>
<td>657.11</td>
<td>92,919</td>
</tr>
<tr>
<td>17</td>
<td>Guntur</td>
<td>7,812</td>
<td>468.32</td>
<td>79,767</td>
</tr>
<tr>
<td>18</td>
<td>Prakasam</td>
<td>5,868</td>
<td>374.35</td>
<td>61,028</td>
</tr>
<tr>
<td>19</td>
<td>Nellore</td>
<td>6,421</td>
<td>242.42</td>
<td>64,346</td>
</tr>
<tr>
<td>20</td>
<td>Kadapa</td>
<td>4,051</td>
<td>180.19</td>
<td>37,009</td>
</tr>
<tr>
<td>21</td>
<td>Kurnool</td>
<td>4,485</td>
<td>177.34</td>
<td>40,132</td>
</tr>
<tr>
<td>22</td>
<td>Anantapur</td>
<td>4,975</td>
<td>214.02</td>
<td>43,407</td>
</tr>
<tr>
<td>23</td>
<td>Chittoor</td>
<td>4,466</td>
<td>313.70</td>
<td>47,411</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1,58,173</td>
<td>10,504.31</td>
<td>15,32,015</td>
</tr>
</tbody>
</table>

Source: Commissioner of Industries, Government of AP.
Chapter 1

Introduction

REFERENCES


64
Chapter 1

Introduction


33. Mathew, P.M. (2009), *the SME Sector a Golden Chance in the Waiting*, the Hindu survey of Indian industry.


47. Ruddar Datt, and Sundharam, K.P.M. (2010), Indian economy, New Delhi S. Chand and Co.Ltd.

Chapter 1

Introduction


56. Vidya Suresh and Shashidhar, P, *Competitiveness of Small Scale Industries of India Indian Institute of management*, Bangalore IIMK-560076, India.

57. www.indiastat.com

58. www.dcmsme.in

59. www.msme.in