CREDIT FLOWS AND THEIR USES IN SMEs SECTOR IN INDIA IN THE POST WTO ERA *

G.S. POPLI

Abstract

Small and Medium Enterprises have been globally recognized as vital components of a domestic economy and major contributors to employment generation in a country, regardless of global barriers. SMEs form the lifeblood of any vibrant economy. In an emerging economy like India, SMEs have a significant socio-economic role to ensure overall development of the nation.

This Thesis examines the problems, Production process, Taxation pattern, Existing technology, Change in technology, Market profile, Financing pattern and Government policy measures, Quality improvement, Equity participation by MNCs, challenges and Overall improvement of this sector in the post WTO regime. The study has been done by using data acquired from an extensive survey of Indian Small Medium SMEs and from the experienced Bankers/ Officials/Policy makers of Govt. of India.

* Thesis submitted for the award of Ph.D. (Business Administration), Under the Guidance of: Dr. Javaid Akhtar and Dr. C.P Gupta to the Department of Business Administration, Faculty of Management Studies and Research, Aligarh Muslim University, Aligarh, India (August 2009).
Chapter -1 : Introduction

Small and Medium Enterprises (SME) all over the world have been recognized as the silent drivers of a nation’s economy. Their enterprise is laudable and their ability to generate pools of growth and employment, invaluable. This is true for most developed, as well as developing economies. In the emerging economic order SMEs are the leading edge when it comes to innovation and entering new global markets. The SME story in India is no different. With over 50% of industrial output through 95% industrial units, SMEs form the backbone of the Indian economy. Their contribution to the economy is huge and hence they are entitled to their rightful share of attention from Financial Institutions. Some of the important features of Indian Small & Medium Enterprises are exhibited below:

- India has nearly 13 Million SMEs
- Industrial Production Rs. 6,95,100 Cr. as on March 2008, which is 50% of total Production.
- 40% share of total Exports.
- Employing more than 42 Million People, next only to Agriculture.
- Growth rate more than overall Industrial growth rate.
- Produces a wide range of products, more than 8000.
- Contributes 8% to GDP.
- Credit to SMEs from PSU Banks Rs.148,600 Cr. as on March 2008.

1.1 Background

The post war period witnessed the widening of the economic gap between developed and underdeveloped nations and a growing awareness on the part of the latter to bridge this gap. Underdeveloped nations had particularly pinned their hopes on industrialisation, which had historically proved itself to be dependable means to achieve the supreme objective of economic development, namely to elevate the living standard of the people and to promote their social and economic well being. The developing countries had generally fared well in the field of industrial development and have been instrumental in accelerating the pace of industrialisation of the country.

Despite of industrialisation in many underdeveloped countries, the per capita income of inhabitants had not recorded a substantial improvement. A sustained increase in per capita real output over a period is necessary to raise the standard of living of the people.

The SMEs Sector plays an important role in the economies of both industrialised as well as in developing countries. While in the advanced countries, the typology of this sector tends to be
homogeneous (mainly in term of firm size and technology). In the developing countries (characterized by low industrialisation) there is co-existence of both very small craft-type enterprises in the informal economy and Small and Medium businesses in the organized sectors. As industrialization progresses, the composition of SMEs Sector would undergo a change in favor of modern small enterprises. These modern small enterprises firms are capable of adopting state of the art technology, relatively big with larger market share, quality conscious and may also be export-oriented units.

1.2. Defining the Problem

Credit is undoubtedly, the jugular vein of small enterprise development in any economy. But, a major constraint in the development of Small and Medium Industries is inadequate credit to finance operations and expansions in our country. The difficulties in obtaining Institutional Credit largely stem from a lack of collateral and the inability to comply with documentation requirements. Better understanding of the financing patterns of small firms and how they change with institutional development has important policy and resource implications.

Many policymakers in governmental and international aid organizations believe that in developing countries small firms have inadequate access to external finance as a result of market imperfections. In response, significant resources are being channeled into the promotion and financing of small and medium-size enterprises in developing countries. For example, the World Bank Group lends more than $2 billion a year in SME support programs. Significant renewed interest has also emerged in development banks, which seek to provide loans that promote development by lending to constrained borrowers in developing countries, particularly small firms.

Understanding how financing patterns of small firms differ across institutional environments is an important first step in assessing these costly policies. Simplification of procedures and flexibility in rules governing small borrowers would help to increase the flow of institutional funds required for increased investment in the post WTO regime. The possibility of interaction between formal and informal sources to increase loan-able funds for small and medium enterprises needs to be probed for the development of SMEs Sector in India.
Chapter 2: Review of Literature

In the present chapter an attempt has been made to review the existing literature on the present study. The 99 studies conducted in India and abroad relating directly or indirectly to Small and Medium Enterprises have been reviewed (Year-wise) in order to determine the research gap and to establish the need for this study.

2.1. Research Gap: On reviewing the above literature, it appears that though various studies on different issues relating to Small and Medium Enterprises have been conducted in India and abroad but there are only very few studies carried out on the SMEs Finances after WTO Regime. There is an urgent need to address the issues involved in the production, technological up gradation, marketing and provision of supportive financial system for Small & Medium Enterprises in India. The present study helps a lot in this regard.

Hence there is a research gap and a need for the present study in this new environment. In this study all aspects of financial requirements and their use in SMEs in pro WTO era have been taken into consideration. Despite the more or less conclusive evidence on the shortage of financial resources at the command of the Small and Medium Enterprises, it is unfortunate that adequate attention has not been paid to ensure the development of SMEs Sector in India.

Chapter 3: Need, Objective, Organisation and Scope of Study

3.1. Objectives of Study

In sustaining their competitiveness, SMEs face many pressures and constraints due to their limited resources like finance, skilled manpower and advanced technology. Thus, their strategy should match the organization’s resources to the changing environment and in particular its markets and customers in the pursuit of its goals and objectives. The specific objectives of the study are:

1. To find out the problems being faced by the SME Unites.
2. To study the manner in which the available funds of the units are deployed on various items of Fixed and Current requirements.
3. To find out the financial requirements of the SME Units in the Pro W.T.O Era.
4. To examine the policies, procedures and practices being practiced by the Central Govt. and Financial Institutions in providing long term and short term funds to the SME Units.
5. To make suggestions for improving the Financial Support System for SMEs Sector in India.

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3.2. Organisation of Study

The study has been organized in nine chapters.

The first chapter is an introductory chapter. It provides the background of the SMEs Sector, importance of this sector and defines the problem statement.

Chapter two is devoted to the review of literature on SME Sector. The studies relating directly or indirectly to the present subject has been depicted and reviewed in order to determine the research gap and to establish the need for this study.

The third chapter exhibits the need & significance of study, objectives and scope of study.

Chapter four is devoted to the Research Methodology. The Research Design, Sample selection, data collection methods and data collection tools have been explained in this chapter.

The analysis and discussion on the findings of the study from the survey and SMEs that and experienced Bank/Policy Makers have been included in Chapter five.

Chapter six depicts a case study. A comparison has been made in two real accounts i.e. borrowers of a nationalized bank. One account has shown very good results while the other has turned bad and is proving difficult for recovery.

The summary, findings and suggestions and conclusions have been exhibited in chapter seven.

Chapter eight depicts the contribution to new knowledge.

The limitations of this study and suggestion for further study have been exhibited in chapter nine.

Chapter -4: Research Methodology

In this chapter the research design and the procedures for conducting the study have been described. It defines the instrument development, pilot testing, research design, data collection and data analysis procedure.

4.1. Instrument Development

This is an exploratory study and the major emphasis remained on discovery of ideas and insight for identifying the credit flow requirements & their use alongwith financial support system for the SMEs Sector in the post WTO regime. The following methods have been applied in the Research design :-

a) The Survey of concerning Literature.

b) The Experience Survey of SME Industries and Bankers/Policy Makers.
c) Case Study – Analysis and comparison of one Good Managed SME Account and one Bad Managed SME Account.

4.2. Pilot Testing

Pilot testing was conducted to validate the information required for this study and the questionnaire. This was necessitated because some of the measurement items were modified or developed specifically for this research leading to compilation of some new questions.

A preliminary questionnaire was developed by amalgamating item pools from previous studies and distributed to ten Small and Medium Enterprises and five Professionals. Their feedback for improvements on clarity, readability, content enhancement and layout were incorporated in the second stage of the questionnaire development.

A set of twenty four Small and Medium Enterprises (12 each) was interviewed using the revised questionnaire. Verbal feedback was received and changes made accordingly. The pilot test results indicated a requirement of simplification of some words to cater to varied level of English language comprehension in India. The words flexibility and responsiveness were explained again with more clarity.

4.3. The Selected Region

The geographical area of Research has been selected “National Capital Region of Delhi”. It includes Delhi, Faridabad, Gurgaon, Bahadurgarh, Ghaziabad, Noida and Bhiwadi.

4.4. The Questionnaire

Information relating to all the above mentioned characteristics of the units has been collected through a field survey of Small and Medium units using a structured questionnaire. We have structured the questionnaires separately for SMEs Entrepreneurs and for Bankers/Policy Makers. The questionnaires have been structured to have 11 blocks to collect the information under different headings like, Company’s identification, General information, Manager’s profile, Input and output, Production process, Taxation pattern, Existing technology, Change in technology, Market profile, Financing pattern and Government policy measures. The questionnaire includes questions of both objective and subjective type which are easily understandable to the respondents so as to capture the real state of affairs.

4.5. Data Collection Instruments

- Questionnaires
- Personal Discussions

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4.6 Sample Selection

As proposed in the Research proposal, data have been collected from the Small and Medium Enterprises in the National Capital Region of Delhi by bifurcating the firms in the undernoted two categories:

- **Group I**: Industries representing Small Scale Sector in India = 80
- **Group II**: Industries representing Medium Scale Industries in India = 80

In addition to above, the in-depth interview has been taken from 25 experienced Bankers/Officials from Nationalised Sector, Private Sector Banks, Small Industry Development Bank of India, Experienced Persons / Organizations in SMEs Sector and Ministry of Small Scale Industry Delhi and Govt. of India.

4.7 Sampling Procedure:

Within the broadly defined set, the sample has been selected using Purposive Sampling. The purposive sampling method has been preferred instead of Random Sampling for reasons of non-availability of the complete list of Small and Medium Units and the nature of study.

Keeping the above mentioned parameter in mind and the researcher's experience of more than 30 years in Banking, the Purposive Sampling has been opted. The sample was selected from the list of 1600 Registered and un-registered SMEs obtained from all the above mentioned sources in the National Capital Region of Delhi.

4.8 Data Collection Methods

- Primary data collection.
- Secondary data collection.

Primary data from the sample units, as explained above have been collected through Personal Interviews with the Owners/Managers and experienced Bankers/Officials on the basis of a pre-tested structured questionnaire. The Secondary data has been collected from the various journals, Reports and issues of SIDBI, RBI, IBA, CRISIL, National Institutes for Entrepreneurship and Small Business Development, Ministry of Small Scale Industry, Govt. of India, Research Papers, Reports of various Study Groups, Newspapers, Books and Internet sites and other relevant sources.

4.9 Data Analysis Tools:

Statistical tools like Co-relation, Frequency, Percentages, Chi-Square and Factor Analysis have been used for analyzing data.
Chapter -5: Results and Discussion

The present Chapter carries out an analysis of the responses gathered from the Primary and Secondary data collected from various sources. The Research into the ‘Credit flows and their use in SMEs in India in the Post WTO era’ has been done in three parts as explained in the Research Methodology Section.

The first part of empirical study had included the existing perception, definition, performance of SMEs and implications involved in the pro WTO regime. This has also taken in consideration the present status of SMEs Sector in some developing and developed countries of the world alongwith the credit flow available to this sector.

The second part of this research has included the feedback for the proposed framework from both SMEs as well as the Banking Industry/Policy-Makers of the country. The requisite information was gathered from 160 Small and Medium Enterprises and 25 experienced Bankers/Officials/Policy Makers selected for the study through questionnaires (separately) and detailed discussion. The results have been discussed accordingly.

The third part covers a study on the two SMEs accounts, financed by a nationalized bank. A comparison has been made between one well managed SME Account and another bad managed SME Account based on various management and financial parameters.

5.1. Phase One:

- Definition of “SMEs” – Global Scenario
- Performance Indicators of SMEs: The Global Scenario
- SMEs: The Indian Scenario
- Definition of SMEs in India:
- Evolution of Investment Limits for Small & Medium Scale Industries (SMEs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment Limit (Original)</th>
<th>Additional condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>Upto Rs. 5.00 Lacs in Fixed Assets</td>
<td>Less than 50 (or) 100 persons with power (or) without power.</td>
</tr>
<tr>
<td>1960</td>
<td>Upto Rs. 5.00 Lacs in Fixed Assets</td>
<td>No condition</td>
</tr>
<tr>
<td>1966</td>
<td>Upto Rs. 7.50 Lacs in Plant and Machinery</td>
<td>No condition</td>
</tr>
<tr>
<td>1975</td>
<td>Upto Rs. 10.00 Lacs in P &amp; M</td>
<td>No condition</td>
</tr>
<tr>
<td>1980</td>
<td>Upto Rs. 20.00 Lacs in P &amp; M</td>
<td>No condition</td>
</tr>
<tr>
<td>1985</td>
<td>Upto Rs. 35.00 Lacs in P &amp; M</td>
<td>No condition</td>
</tr>
<tr>
<td>1991</td>
<td>Upto Rs. 60.00 Lacs in P &amp; M</td>
<td>No condition</td>
</tr>
<tr>
<td>1997</td>
<td>Upto Rs. 3.00 Cr. in P &amp; M</td>
<td>No condition</td>
</tr>
<tr>
<td>2005</td>
<td>Upto Rs. 1.00 Cr. in P &amp; M</td>
<td>No condition</td>
</tr>
</tbody>
</table>

The Investment Limit enhanced to Rs. 5.00 Crores in respect of certain specified items under Hosiery, Hand tools, Drugs, Pharmaceuticals and Stationery items & Sports goods.*

By: Prof. G S Popli
- Performance Indicators of SMEs Industries Sector in India

- Annual Flow of Credit 2006-2007

<table>
<thead>
<tr>
<th>Indicators</th>
<th>MSMs (Former SSIs)</th>
<th>MSME Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector Banks</td>
<td>$ 5.4 Billion</td>
<td>$ 9.5 Billion</td>
</tr>
<tr>
<td>Other Banks (Private, foreign banks, SIDBI etc)</td>
<td>$ 2.4 Billion</td>
<td>$ 3.5 Billion</td>
</tr>
<tr>
<td>Emerging Sources (VC/ PE, ECBs, factoring etc)</td>
<td></td>
<td>$ 3.0 Billion</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 7.8 billion</td>
<td>$ 12 Billion</td>
</tr>
</tbody>
</table>

- Contribution of SMEs in the GDP of India

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution of SME (%) at 1999-2000 Prices in Total Industrial Production</th>
<th>Gross Domestic Product (GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-2000</td>
<td>39.74</td>
<td>5.86</td>
</tr>
<tr>
<td>2000-2001</td>
<td>39.71</td>
<td>6.04</td>
</tr>
<tr>
<td>2001-2002</td>
<td>39.12</td>
<td>5.77</td>
</tr>
<tr>
<td>2002-2003</td>
<td>38.89</td>
<td>5.91</td>
</tr>
<tr>
<td>2003-2004</td>
<td>38.8</td>
<td>5.82</td>
</tr>
</tbody>
</table>

- Growth Rates of Production

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth Rate of SME Sector (%)</th>
<th>Overall rate of industrial sector (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>8.68</td>
<td>5.7</td>
</tr>
<tr>
<td>2003-04</td>
<td>9.64</td>
<td>6.9</td>
</tr>
<tr>
<td>2004-05</td>
<td>10.88</td>
<td>8.4</td>
</tr>
<tr>
<td>2005-06</td>
<td>12.32</td>
<td>8</td>
</tr>
</tbody>
</table>

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CREDIT FLOWS AND THEIR USES IN SMEs SECTOR IN INDIA IN THE POST WTO ERA

- Exports from SME Sector

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Exports (Rs. Crore)</td>
<td>202510</td>
<td>207769</td>
<td>252137</td>
<td>291582</td>
<td>375339.5</td>
<td>456417.9</td>
</tr>
<tr>
<td>Exports from SSI Sector (Rs. Crore)</td>
<td>69797</td>
<td>71244</td>
<td>86013</td>
<td>97644</td>
<td>124416.6</td>
<td>150242</td>
</tr>
<tr>
<td>Share of SSI sector in total exports (%)</td>
<td>34.47</td>
<td>34.29</td>
<td>34.03</td>
<td>33.49</td>
<td>33.15</td>
<td>32.92</td>
</tr>
<tr>
<td>Growth rate in Exports (%)</td>
<td>28.78</td>
<td>2.07</td>
<td>20.73</td>
<td>13.52</td>
<td>27.42</td>
<td>20.76</td>
</tr>
</tbody>
</table>

- Financial Sector and Policy based Finance in India - Pre W.T.O Era.

(a). At National level

(b). At State Level

©. At District level

- Agencies supporting Institutional Finance for Small Scale Industries:

(a). At the National Level:

(b). At the State Level:

©. At Regional & District Level:

- Industry specific Institutional Finance for SMEs

(a). Present Policy Framework and Focus Areas

(b). Amendment of Govt. of India (Allocation of Business Rules)

©. Small and Medium Enterprises Development Act, 2006

Policies for Institutional Finance to SME Industries

Finance is one of the critical inputs for the promotion and development of the micro and small enterprises. Some of the features of existing credit policy for the SMSEs are:

(a). Priority Sector Lending:

(b). Institutional Arrangement:

(i) Refinance Assistance

(ii) Direct Lending and

(iii) Development and support services.

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Emerging Sources of Finance:

(d). Credit Guarantee Scheme:

(e). Performance & Credit Rating Scheme:

**Emergence of W.T.O. Regime and the World Trade**

**Background: World Trade Organization (WTO)**

Since its inception in 1995, the World Trade Organization has made a significant impact on the way international business is being conducted. The WTO strive for global trading harmony - to ensure that trade flows as smoothly predictably, fairly and freely as possible.

**Scope of WTO Agreements**

The WTO agreement covers:

- Goods:- (Main Agreement GATT) e.g. all industrial products, FMCG’s (consumer durables) etc.
- Services: (Main Agreement GATS) e.g. Banking, Insurance, Consultancy, etc.
- Intellectual property: (TRIPS) e.g. patents, copyrights, trademarks etc.
- Investment measures: (TRIMS): domestic regulations applied to foreign investors.

**Principles of WTO Agreements**

**Objectives of WTO Agreements :**

**Impact of WTO on Indian Trade**

**WTO and Small and Medium Scale Enterprises**

**The WTO and its Impact on Indian SMEs**

**Quantitative Restrictions:**

576 items have been freed on April 1, 1999 from the reservation of products for SMEs and only 236 items are under the restricted list. The Exim policy 2000-2001, removed quantitative restrictions only on 58 items reserved for SSI sector. The remaining 198 items were to be freed on April 1, 2001..

**Tariff Levels**

**Anti-Dumping**

**Subsidies and Countervailing Measures**

**Technical Barriers to Trade (TBT)**

**Trade Related Investment**

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CREDIT FLOWS AND THEIR USES IN SMEs SECTOR IN INDIA IN THE POST WTO ERA

Intellectual Property Rights

Trade and Investment

Agreement on Trade Related Investment Measures (TRIMs)

Dimensions of Financial Demand from SMEs in the Post WTO Regime

(a). Demand for Working Capital, and

(b). Demand for Investment

Chapter - 6: Case Study

Comparative study of one Good Account/Successful Entrepreneur with another Bad Account/Unsuccessful Entrepreneur.

M/S. ABC Rubber Industry and M/S. XYZ Carpet Udyog, the two SMEs Accounts (Names changed) are the customers of a nationalized bank. They are availing certain credit facilities from their bank since their inception. We have studied both the accounts thoroughly to find out the style of working, application of funds and decision making process leading to their success or failures. The analysis has been done on the undernoted parameters.

(A) Study of Good SME Account (M/s. ABC Industry - Name Changed)

1. History of the Unit.
2. Location and infrastructure.
5. Share Holding Pattern.
6. Risk parameters.
7. Detail of Credit Facilities.
9. Comparison of Net Sales (last four years).
10. Comparison of Net Profits (last four years).
13. Credit Risk Management Analysis.
15. Assessment of Non-Fund based Limits.
17. Profit & Loss A/c and Balance Sheet as on 31st March, 2005.
CREDIT FLOWS AND THEIR USES IN SMEs SECTOR IN INDIA IN THE POST WTO ERA

23. Analysis of Profit & Loss A/c and Balance Sheet (last three years).

24. Comments on track record of company.

25. B) Study of Bad Account (M/s. XYZ Industry – Name Changed)
   1. History of the Unit.
   2. Technical knowhow.
   3. Details of Raw Material.
   5. Operational Analysis.
   6. Detail of Credit Facilities.
   8. Analysis of Profit & Loss Account and Balance Sheet for the year 2004
   10. Analysis of Balance Sheet and Profit & Loss Account for the year 2005
   13. Comments on track record of the Company - Gradual Down fall of the Company.

C) Comparison between Good Account and Bad Account

   1. Comparison of Turnovers of the Companies.
   2. Comparison of Net profits of the Companies.
   3. Comparison of Sundry Creditors of the Companies.
   4. Comparison of Debt-Equity Ratios of the Companies.
   5. Comparison of Current Ratios of the Companies.
   7. Comparison of Current Assets of the Companies.
   8. Comparison of Tangible Net Worth of the Companies.

D) Conclusion of the Study

7. Summary, Findings And Conclusion

Findings and Suggestions

The findings from this study have been presented in three parts, viz. pertaining to SME Industry, pertaining to Bankers/Officials and pertaining to comparison of two SME Accounts.

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7.1. Findings from the study of Small and Medium Enterprises

(a). Pertaining to problems of SMEs Sector in India.

(b). Deployment of available funds by SME Industries

©. Requirement of Funds by SMEs.

(d). Govt. Policy for Protection of SME Sector in India

(e). Challenges before Indian SMEs in the post WTO era.

7.2. Findings from survey of 25 Bankers / Officials

(i). Change in Technology

(ii). Taxation Pattern for SME Industry

(iii). Financing Pattern for SME Industry

(iv). Recovery in SMEs Accounts

(v). Govt. Policy Measures for SME Industry

7.3. Findings and Suggestions from Case Study

1. There should be a thorough study on the location of the units. We should not set up the SME Units in the unapproved/unauthorized or residential areas.

2. Laws of the land should be known to the Entrepreneurs and complied with strictly.

3. We should avoid the short cuts for some immediate gains and should focus on the permanent methods for the growth and future of the company.

4. Use of funds should be judiciously and properly. The companies should ensure that these are being used only for the business purposes and these should not be withdrawn from the business for some other uses.

5. Projections should be made realistic one. If the company is not able to achieve the projections continuously, the goodwill of the owners and company suffers.

6. The Bankers/Financial Institutions should always be given the true picture. We should not hide anything from them and should discuss our financial problems before thing go out of control.

7. The SME Companies should upgrade their technology to enable them to compete in the markets.

8. The quality of the products must be maintained.

9. The company should concentrate on Research & Development also.

10. The SME Companies should diversify their products and markets.

11. Reserves and Surplus must be created out of profits.

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12. Good marketing strategy should be adopted for their products.

**Conclusion:**

On the basis of conclusions drawn in the present study based on Questionnaire and interview from the Entrepreneurs/Bankers & Policy Makers the following suggestions are given for the development of Small and Medium Enterprises in India.

1. The SMEs in India lacks in knowledge and use of modern techniques of production.
2. There is a need to upgrade the technology in the Indian SME Sector.
3. A strong and supportive Financial System is required for development of this sector in India.
4. SMEs consider lack of quality consciousness, inadequate Govt. support, growth conducive environment and raising funds from market as major problems.
5. Market research, welfare of employees and research & development are top ranking areas for making investments.
6. Inadequate access to institutional finance has led the SMEs to depend upon informal sources of funding. Access to appropriately priced capital in order to enable SMEs to invest in capacity augmentation, technology and marketing is critical to achieve and maintain competitiveness.
7. The requirement of finance for deployment in Fixed Assets, working capital and plant & machinery by SME Sector will increase sharply. The Financial Institutions and Commercial Banks should provide hassle-free finance on easy terms to this Sector.
8. The Commercial Banks and Financial Institutions should devise special schemes on easy terms for upgradation of technology in SMEs Sector.
9. The SMEs should make use of equity participation and Joint Ventures as alternatives sources of finance to strengthen their financial position.
10. RBI should fix targets for SME financing for all the commercial banks in Public, Private and Foreign Sector.
11. The SMEs and Financial Institutions should ensure proper/optimal deployment of funds in fixed assets, plants & machinery and working capital.
12. The SMEs should select the location of their units very carefully. They should ensure that the law of the land is implemented properly.
13. The SMEs should focus on diversification of products and markets for their production.

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14. There should be no diversification of funds.

15. The bankers should use the latest models for credit appraisals & rating tools for financing of SMEs.

16. Cluster Based Approach be used for SMEs financing.

17. The Commercial Banks/Financial Institutions should consider the assessment of the person and activity alongwith the project.

18. The Indian Banks/FIs should finance SMEs on the lines of system prevailing in some developed countries of the world.

19. The Govt. should provide help in marketing of products produced by SMEs.

20. SMEs should be given some special concession on interest charged and should be linked with Credit Rating System.

21. The Govt. may consider waivement of collateral security upto some agreed amount.

22. Definition of SME Sector be linked to employment or turnover of the units instead to investment in Plant & Machinery.

23. The Govt. should provide some protection to SME Sector in India in the pro WTO regime.

24. SIDBI should play more effective and direct role for the development of SME Sector in India.

25. In credit appraisals, not only the assessment of project, but also the assessment of the person and activity be considered.

26. The Govt. should issue instructions to the Banks and Financial Institutions to avoid delay in sanctioning the Term Loans and Working Capitals. The procedure should be simplified.

27. Tax structure should be revised. Transparency and simplification in tax procedures be ensured. There should be a system of charging fewer taxes from Small and Medium Enterprises.

28. There should be more training Institutes for workers to ensure the availability of efficient and skilled workers e.g. ITIs.

29. Most of the SMEs are inherited and their owners are not professionally qualified. As such, there should be specialized courses and Training Centers for owners of SMEs.

30. There should be more specialized branches for ensuring finance to Small and Medium Enterprises.

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31. There should be aware-generation programmes about Government policies pertaining to SME Sector.

32. The Government should establish more Specialised Export Zones for Small and Medium Enterprises.

33. Increased use of Information technology by SMEs in all the spheres of the business activities should be encouraged.

34. There should be an overall Improvement in quality, cost and service to customers by the SMEs.

35. The Government Agencies should provide guidance to SMEs on regular basis in marketing strategy.

Chapter 8: Contribution to New Knowledge

This research will not only add to existing knowledge of Small and Medium Enterprises but would also help in understanding the problems of SME Sector in the post WTO era, with special reference to financial support system in India.

The present study on ‘Credit flows and their use in SMEs in India in the post WTO era” would help in not only addressing the emerging trends and opportunities in the SME Sector but also would focus on providing an adequate financial support system for the smooth growth of this Sector in our country.

Chapter- 9: Limitations of the Study

(a). This study primarily looks on the past, current and future of SMEs as well as SME finances but more views of many shareholders for the SME systems need to be taken in consideration which exposes study’s Limitation.

(b). Further the present study will not take into account the units having investment of less than Rs. 1 lac owing to a number of problems viz. non-maintenance of the proper accounts, unwillingness of the very small units to share the information.

©. We have used Purposive Sampling Method due to the requirement of qualititative and quantitative information requirement of this study instead of Random Sampling Method, which is considered to be more scientific.

9.2. Directions for future Research

During the course of study, the following issues have been identified but could not be attempted and are felt necessary for future research:

(a). Issues involved in the need and adoption of technology by Indian SMEs.

(b). Strategy development for internalization of Indian Small and Medium industries.

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(c) Study on Sector specific SMEs Industries viz. Automobiles, Textile, Plastic, I.T. Sector and Iron & Steel.

(d). Study on new sources of finance viz. Equity participation and Joint Ventures.

(e). Application of Information Technology in Indian Small and Medium Industries.

(f). Study on environment related issues in Indian Small and Medium Industries.

Such an attempt may be made in the Indian Small and Medium Enterprises Sector.

Annexures: (a). Set of two questionnaires and

(b). list of Organizations visited

Bibliography