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Role of Credit Facilities in the Growth of Small Scale Industries in India

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Introduction-

The rapid rise of the small industry sector in India has been a prominent characteristic of the Indian economy since independence. The small sector was assigned a unique role in the Industrial Policy Resolutions of 1948 and 1956 for producing new jobs with little capital expenditure. Because of their inherent advantages such as low capital requirements, high employment generation, decentralisation of industrial activity, utilisation of locally available resources, and expansion of the entrepreneurial base, small and medium enterprises play a critical role in our country's socioeconomic development.

These businesses serve as auxiliary units to large-scale industries and contribute significantly to socioeconomic growth. Micro, Small, and Medium Enterprises (MSME) play an important role in creating huge numbers of jobs at a lower cost of capital than large-scale businesses. It not only aids in the industrialization of rural and backward areas, but it also aids in the industrialization of rural and backward place lowering regional disparities and ensuring a more equitable distribution of national wealth as well as wealth as supplementary units, MSMEs are beneficial to large-scale industries and this industry makes a significant contribution to the country's socioeconomic development. India has two national heritage industries: Khadi and Village Industries (KVI). one of the in India, one of the most essential characteristics of KVI is that it generates jobs a relatively low investment per capita The KVI sector caters to more than the fundamental requirements of the population processed items from the country's huge rural.

The Indian government recognizes the importance of micro, small, and medium enterprises as a crucial driver of economic growth, development, and job creation. The importance of policies, their identification, and execution contribute to the government's primary goal of safeguarding, supporting, and promoting India's SMEs. The government has adopted promotional and protective measures to help the MSME sector (Pooja, 2009)

Need of study

1- How small scale industries growing in India
2- What types of loans bank provided to these industries
3- In which sectors small scale industries performing well.
4- How these loans impacting small scale industries.

Objectives of study

1. To find out where MSME funding comes from.

2. To gain a better understanding of the issue of MSME financing.
3. To investigate the role of the CGTMSE in assisting MSME financing.
4. To investigate the role of financial institutions in the development of Indian small and medium-sized businesses.
5. To examine the numerous difficulties and opportunities that Indian MSME's face.

Chapter II

Literature Review

Both supply and demand variables, according to Abraham and Schmukler (2017)2, can explain SMEs' poor use of banking services. When SMEs have profitable investment initiatives but are unable to secure adequate external funding, they face a supply-side difficulty. When SMEs are not creditworthy, there is a demand-side problem. In this circumstance, creditors will not extend credit unless it is subsidized because they will lose money. SME financing might also be hampered by the macroeconomic situation. For instance, if the government is incompetent, In the event of a fiscal deficit, banks may discover that funding the government rather than lending to the private sector is more profitable or less hazardous. This could limit the amount of credit available to small businesses. In poor nations, where they are the most common type of guarantee plan, public credit guarantee schemes are especially essential. The majority of a company's assets, particularly for SMEs, are movable assets (such as machinery and accounts receivables). Banks, particularly in developing nations, are typically hesitant to accept these assets as collateral due to inadequate legal and regulatory regimes. Banks prefer immovable properties as security because they are more difficult to hide and are less likely to be subject to ownership disputes.

Wasdani and Singh (2016) 3 splits an enterprise's life stages into four stages: startup, survival, growth, and sustenance. Entrepreneurs in the early stages of their business rely on personal savings, friends, and family for working capital. Working capital and collateral finance are also provided by public sector banks. Businesses in the survival stage would want to break even on their investments, so they'd look for ways to meet their specialised needs from both informal and official sources. They employ public banks for operating capital and collateral financing during the expansion stage, and private banks for short-term loans. The shift to private banks could be attributed to increased financial demand and an increase in the number of private banks.

According to Sinha (2012)4, MSMEs often struggle to attain economies of scale due to their small size, and so miss out on market opportunities that require substantial manufacturing facilities. Furthermore, their tiny size makes it difficult to internalize functions like market research, technology innovation, and market intelligence, reducing their efficiency. However, their little size is not always a disadvantage. MSMEs are flexible and adaptable, and they can use these characteristics to capitalize on their innovative ideas.

According to International Finance Corporation (2000), Companies require capital in order to meet their fixed and variable cost requirements. Many businesses experience difficulties in establishing and operating their businesses due to a lack of funding, forcing them to borrow money. The extent to which a company is reliant on debt is determined by its size. If a company is small, it will be more reliant on debt. Debt is a significant source of capital for early and growth stage micro businesses. Small businesses that provide services have a tendency to conduct business in cash and preserve fewer records. Because manufacturing and order-driven services have a longer working capital cycle and larger capital expenditure, they demand more money.

According to Agarwal(1987), Small businesses face a variety of issues, including poor location selection, underestimation of capital costs, demand overestimation, late project implementation, insufficient financial management and cost control, managerial insufficiency, insufficient finance and working capital, weak bill receivables collection, and poor fund management.

According to Abdul Naser (2013), To critically assess the contributions made by SMEs to the economy's balanced growth.

Chapter III
Research Methodology

India's Top 5 Government Loan Programs for Small Businesses

There are approximately 40 million registered and unregistered Micro Small and Medium Enterprises (MSMEs) in India. MSMEs are found in both the organized and unorganized sectors. MSMEs account for over 40% of India's total GDP, and they continue to be a major source of employment. MSMEs address pressing concerns in the country, such as poverty, unemployment, income inequality, regional imbalances, and so on. For this reason, the government has developed a number of initiatives to provide loans to MSMEs in order to help them grow their businesses and economies. Entrepreneurs who manage such MSMEs might borrow money in the form of a loan under any of the programmers that are appropriate for their needs.

MSME business loans in 59 minutes- One of the most popular loan schemes introduced by the government in September 2018 is the MSME business loan in 59 minutes. The loans approved under this plan are intended to provide financial help to the country's growth as well as to stimulate their own growth in the country. The scheme allows both new and current firms to take advantage of the financial support it offers. The loans offered under these programmes range from Rs. 1 crore to Rs. 1 crore and take 8 to 12 days to complete. The permission for the loan is received in 59 minutes, which is why the scheme is called MSME business loan in 59 minutes. The rate of interest is determined by the type of business conducted by the loan applicant. The interest rate on these loans starts at 8.5 percent, and the loan amount can range between 1 lakh and 5 lakh. The following are the criteria for obtaining a loan through this programme:

- GST Verifications
- Income Tax Verifications
- Bank account statement for the last 6 months
- Ownership related documentation
- KYC details.

Mudra Loans- MUDRA loans are approved by the Micro-Units Development and Refinance Agency, which was founded by the Indian government to provide financing to micro-business units. MUDRA loans have the theme of "funding the underfunded." MUDRA loans are available at all bank branches in India.

Low-cost finance for micro and small firms was born as a result of these loans. The MUDRA loans are classified as follows:

Loan Category	Amount
Shishu Loans	Up to Rs. 50,000
Kishor loans.	50,000 to 5,00,000
Tarun loans	5,00,000 to 10,00,000

Eligibility criteria- This programme is open to all enterprises, including sole proprietorships, partnership firms, private limited liability corporations, public companies, and other legal entities.

Stand- Up India- The government launched the Stand-up India scheme to grant loans to enterprises managed by Scheduled Castes/ Scheduled Tribes and women. This scheme is overseen by the Small Industries Development Bank of India (SIDBI). This scheme provides loans ranging from Rs. 10 lakhs to Rs. 1 crore. A minimum of one Scheduled Caste/Scheduled Tribe or women entrepreneur must receive this loan from each bank. According to the terms of the loan, the fund will cover approximately 75% of the overall project cost.

Eligibility criteria- Businesses involved in commerce, manufacturing, or other service-related industries are able to apply for loans under this programme. If the business is not a sole proprietorship, a minimum of 51 percent of the shares must be held by a woman or a member of a Scheduled Caste/ Scheduled Tribe.

Credit Guarantee Fund Scheme for Micro and Small scale business- The government of India has launched a lending scheme that allows businesses in the MSME sector to get capital through loans without having to put up any collateral. The scheme's loans can be given to both new and existing businesses. The Credit Guarantee Fund Trust was established by the Ministry of MSMEs and Small Industries to carry out the CGFMSE scheme. Working capital loans of up to Rs. 200 lakhs are available under this scheme, with preference given to qualifying women entrepreneurs.

Eligibility criteria- Retail trade, educational institutions, self-help groups, and training institutes are examples of manufacturing enterprises. Additionally, enterprises in the service sector are able to apply for assistance under this loan programme.

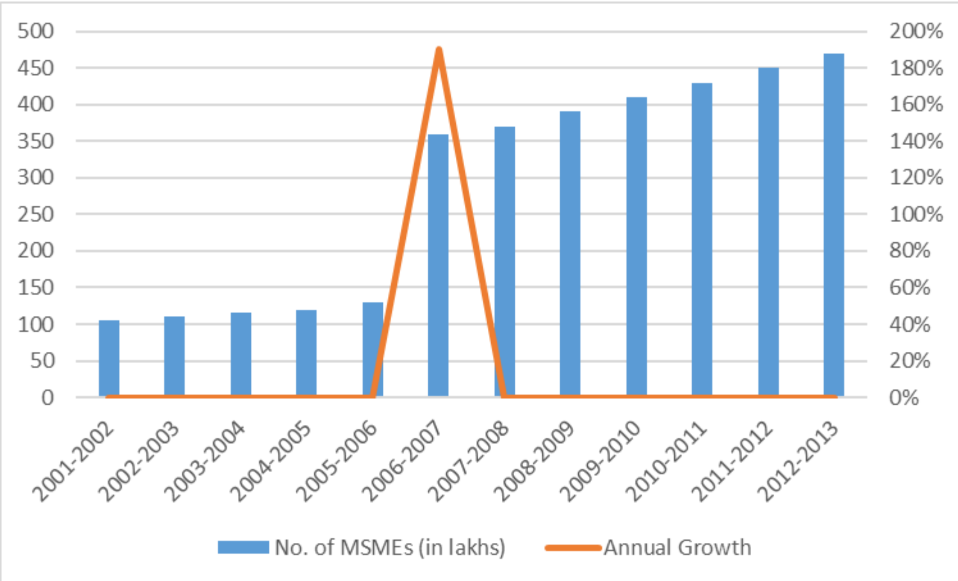
National Small Industries Corporation Subsidy- The NSIC is an ISO-certified government enterprise that falls under the MSMEs umbrella. One of its main responsibilities is to help MSMEs expand by providing financial, technological, market, and other services across the country. In order to support the growth of MSMEs, the NSIC has launched two schemes:

- **Marketing support scheme-** By designing schemes such as Consortia and Tender Marketing, the system aids in the development of any firm. Such a programme is critical since MSMEs require assistance in order to expand in today's competitive market.

- **Credit support scheme-** The NSIC provides financial assistance for the procurement of raw materials, marketing operations, and syndication financing with banks for MSMEs.

The benefit of this plan is that it allows small businesses to participate in tenders without incurring any charges, and it also eliminates the need for MSMEs to pay security deposits in order to receive financial assistance.

Credit Link Capital Subsidy Scheme for Technology Upgradation- This programme helps small firms modernize their processes by providing funding for technical upgrades. Manufacturing, marketing, supply chain, and other functions inside the firm can all benefit from technological advancements. The government's CLCSS scheme aims to lower the cost of producing goods and services for small and medium-sized businesses, allowing them to stay price competitive in both domestic and international markets. The Ministry of Small-Scale Industries oversees the programme. For eligible enterprises, the CLCSS provides a 15% up-front capital subsidy. The highest amount that can be received as a subsidy under the scheme, however, is capped at Rs. 15 lakhs. This business lending programme covers sole proprietorships, partnership enterprises, co-operatives, private, and public limited companies.



Number of MSME enterprises and percent growth from 2001-02 to 2012-13.

(Data source: Ministry of MSME, Annual report)

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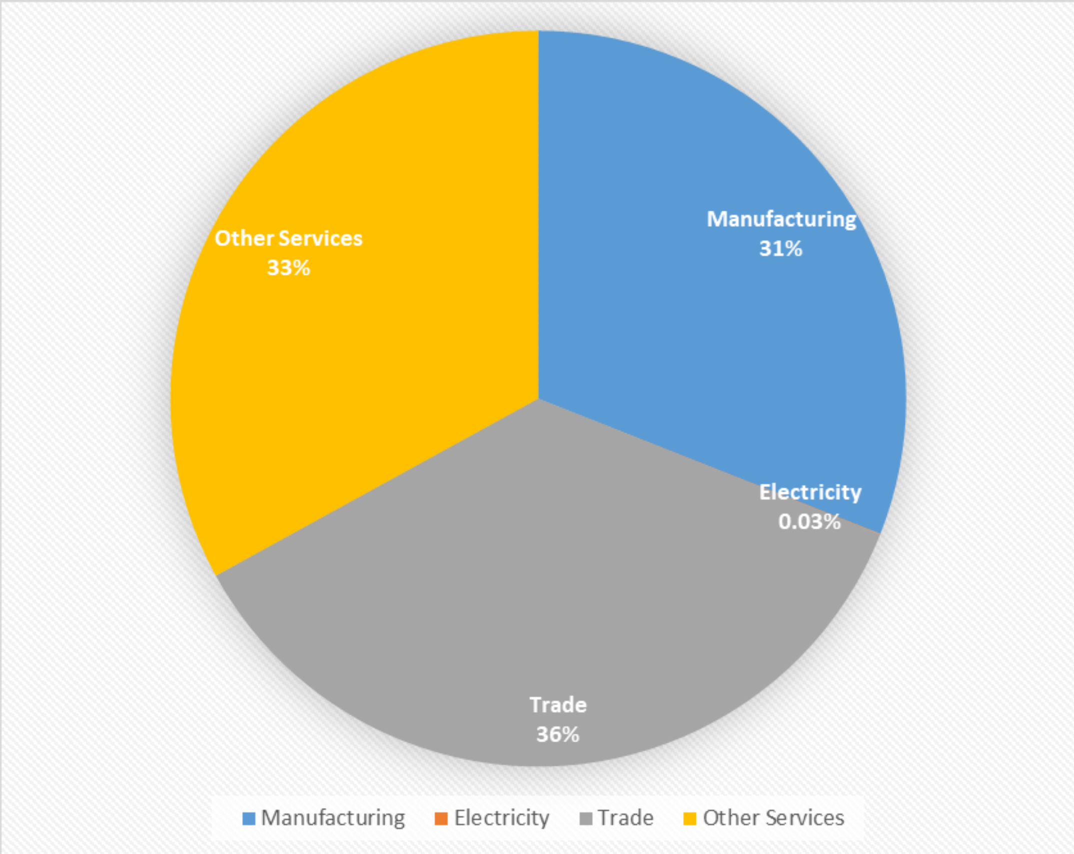
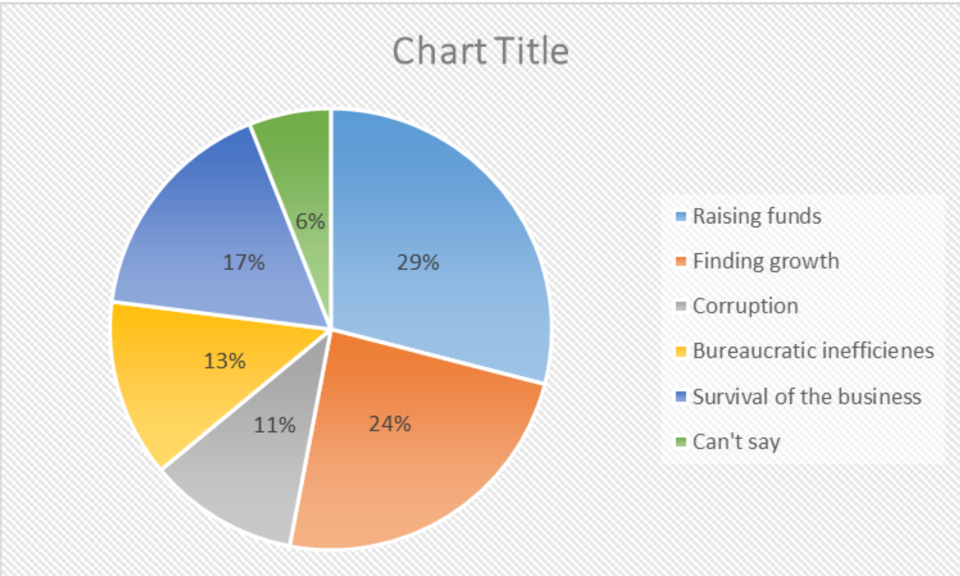
Main sector of MSME activity



Source- Ministry of MSME- Annual Report

As a startup or MSME, what do you foresee at your Top challenge in 2021?



Source Local Area

Chapter IV

Conclusions

The study discovered that an MSME's financing source is determined by its existing financial situation stage in the life cycle of a business There were four stages identified: start-up, survival, growth, and sustenance.

Entrepreneurs in the early stages of their business rely on personal savings, friends, and family for working capital. Working capital and collateral finance are also provided by public sector banks. Finance was obtained from both trustworthy informal (personal, family, and friends) and formal (government) sources (public banks). In the case of reliable informal sources, there would be less pressure in the event of repayment difficulties.

Moneylenders and public banks, followed by personal finances and private banks, are used by businesses in the survival stage for operating capital. Short-term loans are also secured through private banks and moneylenders. At this stage, businesses are aiming to break even on their investments, so they'll hunt for ways to suit their specific needs from both informal and official sources. Due to their ready availability and speedy disbursement, short-term requirements were most often sourced from private banks and moneylenders.

Public banks provide working capital and collateral financing to growing businesses, whereas private banks provide short-term loans. The shift to private banks is likely due to increased financial necessity and the ability of businesses at this stage to afford higher financing costs.

Personal finances, cooperative banks, public banks, and money borrowed from friends are all used by businesses at the sustaining stage for working capital. Short-term loans and collateral financing were also done through cooperative banks. Business owners are more conscious of the importance of obtaining certain financial resources. The reliance of trustworthy informal sources (personal wealth and friends) as well as formal sources (public banks and cooperative banks) for working capital exemplifies the degree of conservatism in the sourcing of finance at this time.

In a nutshell, personal savings, family wealth, friends, moneylenders, and the banking system, which includes public, private, and cooperative banks, are the most common sources of finance employed throughout the life cycle.

The difficulty in providing collateral or a guarantee, lengthy loan processing, and a lack of understanding about available schemes were the most typical problems experienced by businesses in the start-up and survival stages in obtaining financing. Businesses in each of these stages had not yet fully established their operations and hence were unable to provide collateral or security or to undergo lengthy lending procedures.

Lack of awareness about available schemes, expensive service costs for processing loan requests, difficulty producing collateral or a guarantee, and high interest rates were the key barriers to receiving finance during the expansion period. Enterprises looking to expand and grow into new markets may have various financial demands, and they may be looking for short-term cash that can be obtained at lower rates. Due to their lack of awareness in the early phases of their business's life cycle, entrepreneurs would experience the limits of not having examined available possibilities in terms of MSME finance programs.

The difficulty in providing collateral or a guarantee, procedural complexity, a lack of understanding about available schemes, and long processing times for loan applications are all important challenges for businesses in the sustaining stage. In this stage, as in the others, a lack of knowledge about available MSME funding schemes, as well as collateral requirements for loans, were prevalent problems. It was surprising to learn that financial institutions want collateral from businesses that have built a reputation in the market over time, and that goodwill was not regarded sufficient.

When assessing the educational credentials of the business owner, it was discovered that individuals with a bachelor's degree were more aware of MSME finance schemes than those with other levels of education. More educated business owners were also more inclined to use such programs to benefit their companies.

Chapter V

Suggestions

- How can the government increase the provision of basic infrastructure and provide entrepreneurial extension services to train small-scale entrepreneurs and their employees in order to improve these businesses' technical know-how?
- Banks can also act as financial consultants to small scale companies (SSEs) by providing frequent help on the creation of financial records and proposals for bank facilities, according to the report.
- Finally, how can commercial banks assist small and medium-sized businesses in gaining access to foreign exchange while simultaneously ensuring that these chances are not abused? If this is accomplished, it will aid in cost reduction and result in a rise in working capital.

Chapter VI

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