

Financial Support Infrastructure for MSMEs

Money makes the world go round and it causes the world of MSMEs to spin even faster. Finance is a quintessential requirement of any business and the need for the same for a micro or a small enterprise cannot be stressed enough. On one hand an uninhibited source of finance can make a business blossom while a constrained one can make a business struggle. Many a promising business has failed to get off the ground because of the lack of finance, which is a big disappointment. According to Mr Uday Kumar Varma Secretary, Ministry of MSME ***“bankers have maintained that MSME lending is growing 20-22% year-on-year, even though the overall demand for credit appears to far outstrip the credit flow”*** on the flip side authorities seem to be working overtime to get the situation better for all concerned.

One thing must be understood as to why MSMEs have to struggle with finances considering that there are many sources available for availing finance. Sources include banks, large organisations and small merchants amongst others. MSMEs generally have no or very little track record which acts as a bottleneck in their way to getting reasonable access to credit. The banks while looking to lend to MSMEs are looking for collaterals to safeguard against a possibility of Non Performing Assets (NPA), which is not always possible for MSMEs to provide. Even the finance that the organisations are able to get is charged at exorbitant rates which are not always rational. In fact Mohd Yunus lead Grameen bank which won Nobel Prize in 2006 for peace has charged rates close to 20% for microfinance. It is not as if someone does not want to help organisations in the sector but sometimes the system is such that one cannot do much even if one tries. One thing that can help in getting the cost of credit down is the credit ratings. Good credit ratings can separate grain from chaff and would provide lenders confidence in their lending. In fact an ‘Expert Committee on Small Enterprises’ was constituted under the chairmanship of Shri Abid Hussain which has recommended that SIDBI in co-operation with national credit rating agencies should promote the establishment of local credit rating agencies in the identified SSE clusters.

People in the sector sometimes get emotional and blame Government for their perils. One thing cannot be blamed on the Government for the lack of effort. Over the last few years the authorities have taken steps designed to help MSMEs. The Government of India at the national level has set up institutions which will help MSMEs come out stronger financially.

The authorities recognize that there exists a problem and have taken measures to solve the problem at various levels. The Prime Minister’s task force set up under the chairmanship of Mr T.K.A Nair has also recommended many steps which would encourage many MSMEs. The task force has pointed out the following recommendations.

1. **Sub-target for micro enterprises under priority sector lending** - The task force has asked for a target of 6% for micro enterprises under priority sector lending, the panel also recommended that in case there is a shortfall by banks in lending to small and medium enterprises the deficit should be put in a separate fund with SIDBI. It will ensure required assistance to MSEs in one way or the other. Along with it a growth target of 15% in number of micro enterprise accounts may be stipulated for all scheduled commercial banks.
2. **Interest Subvention on Micro Enterprises Loans** - Interest subvention will help MSEs in getting required credit at a better rate than what has been available till now.
3. **Setting up of SME Exchange** - This will allow All the MSMES to acquire Equity/Risk Capital; the sector has been heavily relying on debt capital so far. The group has asked SEBI to examine the proposals they have received so far. To make this possible some things that need to be seriously considered are;
 - (I) Change in bank lending norms for innovation start-up firms, and introduction of new debt instruments
 - (II) Tax incentives including allowing setting up of domestic angel/venture capital funds in a Limited Liability Partnership (LLP) structure with a tax-pass through status
 - (III) Allowing listing of angel/venture capital Funds on the existing Stock Exchanges,
 - (IV) Public funding for setting up of new venture funds

Along with the following the task force has come out with a variety of other recommendations which include, simplifying the loan application process for loans up to Rs.25 lakhs by introducing a uniform application form that is common to all banks. Banks should also open more MSE focused branch offices at different MSE Clusters which can also act as Counseling Centers for MSEs and banks may also be persuaded to adopt the Banking Code for MSEs to bring about uniformity in operations.

Taking aboard the recommendations the government has already launched **UDYAMI** a helpline to satisfy the long felt need of a single point facility for MSMEs for wide spectrum information and accessibility of banks and other MSME-related organizations

The office of Development Commissioner (MSME) has also done a lot for the fiscal betterment of the MSMEs through many of its schemes. One of them being Credit Guarantee Fund Scheme for Micro and Small Enterprises, the scheme provides collateral free loan up to Rs. 50 lakhs. proposals from micro and small enterprises have been approved for guarantee cover for aggregate credit of Rs.11550.61 crore, extended by 85 MLIs in 35 States/UTs Another scheme which was designed to financially help MSMEs is the Scheme of Micro Finance

Programme what this scheme does is that it helps by way of contributing towards security deposits required from the MFIs/NGOs to get loan from SIDBI. The scheme is being operated in underserved States and underserved pockets/districts of other states. As on 31st March 2010, the Government has released an amount of Rs.80.00 crore towards 'Portfolio Risk Fund'(PRF).An amount of Rs .6.00 crore has been released during 2009-10. As on 31st march 2010, cumulative loan amount of Rs.1299.68 crore has been provided to MFIs/NGOs under the Scheme benefiting approximately 20.21 lakh persons. Of this, more than 80% are estimated to be women beneficiaries. Along with these schemes there have been many schemes which have intended to fiscally help MSMEs directly as well as indirectly.

These are some of the conventional measures that either the government has taken or intends to take, however the authorities believe that in order to fully help MSME sector we need to seek non conventional measures as well. According to Mr Uday Kumar Varma Secretary, Ministry of MSME ***“Conventional financing is not enough to help MSME sector and there is a need for out of the box thinking. Underlining the same Mr Varma said that “perhaps the capital gains tax exemption could be extended to those reinvesting their wealth in MSMEs. This might bring in substantial funds into the sector in the backdrop of the buoyancy in the real estate sector”.***

Some of the other countries around the world have also recognized the importance of MSMEs to their respective economies and have taken steps to bring MSMEs at par with other organisations. In Asia for instance, the Indonesian Government has come out with a scheme called Credit for People’s Business, which Provides up to Rp 500 million per borrower at maximum 16% per annum. In Singapore under a programme called Micro loan, authorities Provide loans of up to \$50,000 to fund daily business operations, where the number of employees are less then 10. In East Asia the Japanese government provides affordable funding through institutions like Japan Finance Corporation for Small Business, National Life Finance Corporation and Shoko Chukin Bank. In Korea There are insurance programs like exchange rate fluctuation insurance and export credit guarantee by the Korea Export Insurance Corporation and they have set up a special agency, Small and Medium Business Administration established with the objective of providing a boost to the SME sector in South Korea In Italy a development finance institution in Italy is dedicated in supporting and promoting the activities of Italian SMEs abroad apart from supporting export credits for investment goods produced in Italy and in Hungary financial system offers full range of financial and support services to the Hungarian SMEs mainly through the commercial banks and development financial institutions. In Africa the South African Government has established the South Africa Micro Finance Apex Fund, which has been mandated to facilitate the provision of affordable access to finance by micro and small enterprises. These Initiatives only show that Finance is a mightily important thing for MSMEs who in turn our extremely important for every nation.

In India a very large portion of the industry is made up companies that are part of the MSME sector spread across the length and breadth of the country. So, how well the sector fares will have a bearing on the lives of a lot of people. A Need for policy therefore becomes even more acute. The need for finance for Indian MSMEs is very important, according to Fourth all India census of Micro, Small and Medium Enterprises, a very low percentage of MSMEs have access to any kind of finance. These figures also show that very few of the registered MSMEs get any sort of finance and the picture is uglier for the unregistered units, which is fry cry from where we want to be.

In Lakhs No (Percentages)

Enterprises by Sources of Finance	Registered	Unregistered	Total
No Finance/ Self Finance	13.63 (87.77)	228.51 (93.08)	242.13 (92.77)
Finance through Institutional Sources	1.74 (11.21)	11.70 (4.80)	13.51 (5.18)
Finance Through Non – Institutional Sources	0.16 (1.02)	5.20 (2.12)	5.36 (2.05)
Total	15.53 (5.94)	245.48 (94.06)	261.01 (100)

The lack of finance or the availability of the same has caused a lot of sickness in the sector with as many as 480,946 units closed down over a five-year period, while another 77,723 micro and small enterprises (MSEs) were declared sick by March 2010.

Statistics bear out the facts that the lack of finance is hampering growth and causing sickness in the sector. According to the according to Fourth all India census of Micro, Small and Medium Enterprises, Entrepreneurs have identified the following reasons for sickness/Incipient sickness for their organisation.

Reasons for Sickness/ Incipient Sickness	Proportion of sick/ Incipient sick Units
Lack of Demand	71.6 %
Shortage of working capital	48 %
Non – Availability of raw material	15.1 %
Power shortage	21.4 %
Labour problems	7.4 %
Marketing problems	44.5 %
Equipment problems	10.6 %
Management Problems	5.5 %

Even though only 48% have identified shortage of working capital for sickness one can easily correlate that other problems have occurred because of lack of financial availability. To alleviate problems being faced by MSMEs particularly with respect to rehabilitation of potentially viable sick units, the RBI had constituted a Working Group on 'Rehabilitation of sick SMEs' under the chairmanship of Dr. K. C. Chakravarty. RBI has subsequently issued a circular to all scheduled commercial banks enclosing therewith recommendations made by the Committee and advised banks to consider speedy implementation of the recommendations made by the Committee with regard to timely and adequate flow of credit to the MSE sector.

The MSME sector in itself is so large in itself that the Government alone cannot do all the things by themselves and they need support of the apex bodies in helping them implementing the policies. Confederation of Indian Industry (CII) has regularly Complemented Government in establishing their policies. CII in its Pre budget Memorandum for MSMEs 2010 -11 has proposed a lot of points that will benefit MSMEs both budget related and non budget related. In budget related recommendations CII has asked for providing tax benefits to companies to

source from MSMEs and adhere to the payment schedule to solve the problems of delayed payments. CII has also asked for a higher service tax exemption with current level too low. In Budget related issues CII has asked government to encourage Foreign Direct Investment (FDI) in the sector would include automatic approval for 100% FDI from NRIs, and other promotional measures, including a single window clearance, across all sub sectors within the MSMEs. Along with this CII has also asked for weightage to be given for Independent credit rating by banks

The use of finance is such that its role in development of any organisation cannot be underplayed; it quite simply is the most crucial factor in the success or failure of any organisation. It may also be defined as a primary key for unlocking potential success. It is extremely important to recognize its importance and keep on improving until we have achieved an optimal solution. Not only individual bodies but synergies are also required to help all those seeking help and reach where we want to reach.