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   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

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   ACKNOWLEDGMENTS

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   APPENDIX/ANNEXURE

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- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS
- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS
- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES
- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

FINANCING OF INDIA'S GROWTH ENGINE: MICRO, SMALL AND MEDIUM ENTERPRISE

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ABSTRACT

Micro, Small and Medium Enterprises (MSME) is the backbone of Indian Economy. These are recognizes as important constituents in the lubrication and development of Indian economy. In this era of Globalization, MSMEs have to meet the global competition that it faces today by upgrading their competencies. But the biggest challenge that MSME faces is the lack of availability of adequate credit. Finance is the lifeblood of any business. It is the primary key for unlocking potential success of the MSMEs. Recognizing the importance of this credit, Government rolled out various schemes for ensuring sustainable growth of the MSME sector. This paper highlights the various financial problems that MSME is beset with. It attempts to show that although the sector is showing impressive growth, it still faces the problem of credit availability. The paper attempts to document the various financing options that MSME takes advantage of in order to improve their competitiveness as it contributes a vital part to the Indian Economy. The paper concluded by analysing that since they play an instrumental role in development of the country, their financing needs must be fulfilled with adequate measures and methods.

JEL CODES
G20, G21, G24, G28.

KEYWORDS
Credit, Financing Options, Micro, Small and Medium Enterprise, Schemes.

INTRODUCTION
Micro, Small and Medium Enterprises (MSME), India's growth engine is essential to achieving the targeted growth rate of our nation. It continues to remain the backbone of India's Economy. MSME contribute nearly 8% to the national GDP employing over 8 crore people in nearly 4 crore enterprises. It is a vital part of Indian Economy as it contributes over 45% of industrial production and around 40% of total exports. So, India is emerging as a major MSME hub in the future times to come. MSME's provides means of livelihood along with socio economic development of India. Given the size of this industry and exponential growth, it plays a major role in progress of Indian Economy. MSME is generally driven by individual creativity and innovation at its most rudimentary level and thus this sector nurtures budding entrepreneurs in this way. In the last five-year plan, this sector demonstrated an average growth of 12%, raising the share of the manufacturing sector in GDP to 16%. Since they are widely dispersed across the country this makes them highly important from regional perspective and as a means to promote balanced and equitable growth all over the country. With the country moving towards a more inclusive growth agenda, a robust MSME sector can accelerate the growth rate, as these do not necessitate huge investments while simultaneously acting as ancillary units to larger industries. It is an acknowledged fact that the MSME sector can help realise the target of the proposed National Manufacturing Policy of raising the share of the manufacturing sector in GDP from 16% at present to 25% by the end of 2022.

Albeit the sector has shown impressive potential, it also faces a number of challenges to its growth story. MSMEs suffer the high cost of credit which does not reach them on time. There is inadequate capital infusion compounded by insufficient data on credit requirement. This is traditionally being one of the biggest hurdles today that MSME faces i.e. Finance. Finance is a quintessential requirement of any business and the need for the same for MSMEs. Many a promising business has failed to get off the ground because of the lack of finance, which is a big disappointment. The best of plans can fail if adequate finance is not there. 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 there is an optimal solution.

MSMEs need credit support not only for running the enterprise and fulfilling the operational requirements but also for diversification, modernization/up gradation of facilities, capacity expansion, etc. Inadequate access to credit is a major problem facing MSMEs today. Generally, such enterprises operate on tight budgets, often financed through owner's own contribution, loans from friends and relatives and some bank credit. They are often unable to procure adequate financial resources for the purchase of machinery, equipment and raw materials as well as for meeting day-to-day expenses. MSME need to face the global competition as globalization has come into existence and thus will need to upgrade their competencies to avoid obsolescence and get competitive advantage. Though, Globalization has expanded the market facilitating supply of superior technology, this has also forced them to face cut throat competition from large domestic firms and MNC's. But the biggest challenge that MSME faces is availability of adequate credit, high cost of credit, collateral requirements, and limited access to equity capital. As we all know that Finance is the life blood of any business therefore it is necessary to have smooth flow of finance to keep MSME working at the most optimum level as also competing with the global peers. With exposure to global economies, volatile customer preferences; organizations need to enhance their products for which there is a need for finance to keep them working effectively. Recognizing the importance of easy and adequate availability of credit for ensuring sustainable growth of the MSME sector, the government rolled out several schemes. 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. This study attempts to document the traditional financing methods, alternative financing methods, some of the new financial aids and General Financial Aids to provide them with a roadmap for optimal use.

OBJECTIVES OF THE STUDY
- To understand the challenges or financing problems in the current scenario faced by MSMEs.
- To understand the various financing options for MSMEs.

LITERATURE REVIEW
Sabharwal, (2000) analysed that small businesses and enterprises in India suffer from a great deal of indebtedness and are subject to exploitation in the credit market through high interest rates and lack of convenient access to credit. They need credit to fund their working capital needs on a day-to-day basis as well as long term needs like emergencies or other income related activities. They need credit to smoothen out seasonal fluctuations in cash flow arising from business activities and consumer demand. They also need credit as an insurance against minor spikes and troughs with respect to income and expenditure. Since cash flows for the majority of small businesses like vegetable vendors are small and savings are small as well, they typically tend to rely on credit for other consumption needs like education, food, housing, household functions etc. And this is backed by the fact that India has no social security net that will take care of basic amenities like health, education and so on for the poor. To meet these credit needs they need access to financial institutions that can provide them with

credit at lower rates and at reasonable terms than the traditional money lender. The traditional source of lending in the formal sector i.e., public sector banks have been extending support to these businesses. Hallberg, (2001) argued that the financing of small and medium enterprises (SMEs) has attracted much attention in recent years and has become an important topic for economists and policymakers working on financial and economic development. This interest is driven in part by the fact that SMEs account for the majority of firms in an economy and a significant share of employment. Renner et. al, (2008) SMEs are a major source of entrepreneurial skills and creativity and contribute to economic and social cohesion. They hold the key to innovation and are also emerging as global players, by participating in worldwide production and supply chains. Singh & Belwal, (2008) The problems in the areas of securing finances for establishing and running SMEs, lack of entrepreneurial and management competence and exposure, problems in finding the markets and distribution networks; limited opportunities for promotion and participation; limited amount of government and institutional support; absence of technological know-how and integration mechanism; and rampant corruption in an undisguised or disguised form, as major bottlenecks. Fumo et al., (2011) Financial and competitive barriers are the main barriers faced by the analyzed MSEs. These barriers vary according to the field of activity of the enterprises. Bradford, (1993) analysed Many Micro Enterprises highlight certain common problems: undercapitalization and low ability to command loan finance due to insufficient collateral, track record or financial expertise, lack of broad-based management skills, inadequate understanding of cash flow management and heavy dependence on local markets and a limited number of customers.

Subrahmanya Bala, (2011) has probed the impact of globalization on the exports potentials of the small enterprises. The study shows that share of SSI export in total export has increased in protection period but remain more or less stagnated during the liberalization period. However, the correlation co-efficient in liberalization period is higher than that of protection period suggesting that the relationship between the total export and SSI export has become stronger in liberalization period. This may be due to the drastic change in composition of SSI export items from traditional to non-traditional and growth in its contribution to total export through trading houses, export houses and subcontracting relation with large enterprises. Thus, the current policy of increasing competitiveness through infusion of improved technology, finance, and marketing techniques should be emphasized.

RESEARCH METHODOLOGY

The present research is analytical in nature. Information has been collected from various sources websites, books, articles, journals and company(s) database.

CHALLENGES FACED BY MSMEs

Despite showing a robust growth rate of over 10% over the last 5 years, the MSME sector is beset with following financial problems:-

Non-availability of adequate and timely credit;

- High cost of credit;
- Collateral requirements;
- Limited access to equity capital;
- Shortage of Financial resources.

FINANCING OPTIONS FOR THE MSMEs

Traditionally MSME have relied on following sources of finance namely:-

- Retained Earnings
- Personal Savings, Loan from relatives, loans from unregulated market
- Institutional Financing like SCB
- Venture Capital Financing

Among these, Commercial Banks appears to be the largest source of financing to the SME.

A. TRADITIONAL FINANCING OPTIONS

➢ **FINANCIAL SUPPORT FROM BANKS**

Public sector banks have been pioneers in providing financial assistance to several MSMEs which can approach the banks for loans under various schemes. The government of India has shown strong commitment to double the credit flow to this sector in the next five years. Hence the RBI has mandated scheduled commercial banks to achieve 20% year-on-year credit growth to the MSME sector. Banks have a vital role to play in addressing several problems faced by the sector today. Banks have to view themselves not just as providers of credit but as partners in the growth of these enterprises. The working capital needs of the sector are largely met by the banking sector, including Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs), Urban Co- operative Banks (UCBs), National Small Industries Corporation (NSIC), factoring companies, etc.

As the availability of timely and adequate credit is a key requirement for this sector, banks should introduce single window facility for providing loans to MSMEs. For this purpose, they can set up Centralized Processing Centres specifically to cater to such clients, who will handle the appraisal, sanction, documentation, monitoring, renewal and enhancement activities. As in any area, there would be a higher failure rate for start-up MSMEs. However, despite the risk, the financing of these enterprises is a must for ensuring inclusive growth. Banks will, therefore, be required to build up their risk assessment and risk management capabilities and provide for any instances of failures as a part of their risk mitigation process.

Typical barriers to accessing bank finance for MSMEs include a lack of collateral (real estate security), brief or nonexistent business. track records, fragile financial and management systems, and the uncertainty of profitability (especially for R&D companies).

➢ **GOVERNMENT INSTITUTES AND SCHEMES**

The long term credit funds of MSMEs are mainly provided by the institutions like Small Industries Development Bank of India (SIDBI), State Financial Corporation's (SFCs), Non-Banking Financial Companies (NBFCs). SIDBI has been constantly working on building various institutional mechanisms to cater to the emerging needs of the MSME sector. The various subsidiaries of SIDBI such as SIDBI Venture Capital Limited, SME Rating Agency of India Ltd (SMERA), and India SME Asset Reconstruction Company Ltd facilitate in easier flow of credit to SMEs. Ratings will play an important role for financing MSMEs as they do for large enterprises.

National Small Industries Corporation (NSIC) is another institute that provides financial and marketing assistance to the small scale unit. Small Industries Development Agency (SIDA) provides single window services to the Small Scale Industries.

Credit Guarantee Fund Trust for Small Industries (CGTST) set up by Government of India (GOI) and SIDBI-The trust provides guarantee cover for credit facilities up to 1 crore. Such guarantees permit banks to provide collateral free finance to the MSMEs on the basis of the viability of their project. The corpus of the Trust was proposed to be enhanced from the level of Rs.7 billion to Rs.25 billion. The main objective of the Trust was to facilitate hassle free credit to the SSI sector and encourage banks to shift from security based lending to merit based lending.

There is Credit Linked Capital subsidy Scheme that facilitates technology up gradation.

Interest Subsidy scheme of IPR which works effectively 1with the active assistance of banks and financial institutions helped in dispensation for labour intensive industry by extending the facility of 2% interest subvention for handlooms, handicrafts, carpets and small and medium enterprises.

B. ALTERNATIVE FINANCING OPTIONS

In spite of the various schemes and policies created to augment financial support to MSME and the growth in credit limits of banks, they still faces the problem of availability of adequate finance. Small businesses thus rely on other alternative sources of finance which includes Factoring, Venture capital Funds and Supply Chain Finance etc. We will hereby discuss the alternative financing possibilities for the MSME.

➢ **FACTORING**

Factoring is a form of receivables finance whereby a business assigns its accounts receivables (i.e. invoices) to a finance company (a factor) at a discount in exchange for immediate money with which to finance continued business. To facilitate factoring services the Government has recently passed the Factoring Regulation Bill that would address delays in payment and liquidity problems of micro and small enterprises. The delayed payment cycle by the large scale customers of MSMEs have an adverse effect on their operational facets and fund recycling efforts. Timely payments from large customers will help SMEs reduce interest costs, improve profitability and have a positive impact on the long-term health and sustainability of India's MSME sector. MSMEs with large corporate customers have receivables of 90 to 120 days of sales on their balance sheets, as against 45 days stipulated by the Micro, Small, and Medium Enterprises Development (MSMED) Act.

Factoring is capable of providing MSMEs with the liquidity needed against their receivables and can be efficient alternate source of working capital. Factors buy the right to collect on invoices raised against any sales by the SME and releases 80-90% of the invoice value to the firm. It is on account of its superior conversion time of receivables into cash, absence of geographical restraints, non requirement collateral security etc makes it a much preferred and superior product than bank finance.

The Indian factoring market is still at a nascent stage as statistics reveal that there are nearly 10 factoring companies in India with Canbank factors and SBI Global Factors being two of the oldest.

➢ **SUPPLY CHAIN FINANCE**

This mode of financing enables MSME to receive short term credit against the volume supplied during the payment receivable period. Like HSBC has a Distributor Finance Programme (DFP) which assists in creating a support framework for financing and collection of any MSME client's delivery chain. Thus it can prove to be another route to finance the working capital of MSME.

➢ **VENTURE CAPITAL FUNDS**

Venture Capital is emerging as an important source of finance for small and medium-sized firms, especially for starting the business and business expansion. An entrepreneur usually starts the business with his own funds, and those borrowed from banks. It is during expansion that they find it difficult to raise funds. Even though many MSMEs have profitable projects and expansion plans, they find it difficult to get finance for their projects, as bankers may not be willing to fund high risk projects. In order to provide financial support to such entrepreneurial talent and business skills, the concept of venture capital emerged.

Venture capital is a means of equity financing for rapidly-growing private companies. Finance may be required for the start-up, expansion or purchase of a company. Venture capitalists provide funds known as Venture Capital Fund to these firms after carefully scrutinizing the projects. Their main aim is to earn higher returns on their investments, but their methods are different from the traditional moneylenders. They take active part in the management of the company as well as provide the expertise and qualities of good bankers, technologist's planners and managers.

As funds required by MSMEs are too large for microfinance institutions and too small or too risky for commercial banks, this is one of the primal issues that the Venture Capital component addresses this part of the investment promotion of the consolidated project for MSME development in India. Traditionally, Venture Capitalists in India have shied from the MSME sector. The non-corporate structure and small size of majority of MSMEs in India makes the Venture Capitalists and Private Equity Players reluctant to investing in them due to higher transaction costs and difficulties in exits out of such investments. However, the Venture Capital scenario in India is rapidly changing. Alternative funding like Venture Capital is picking up in the India, including in the MSME sector. Moreover, the Venture Capitalists are expanding their reach into areas besides the traditional Venture Capital sectors like Information Technology (IT), clean energy, healthcare, pharmaceuticals, retail etc is also growing. It is difficult for the MSMEs to derive Venture Capital. This is due to information asymmetry in the market, inability of the MSMEs to articulate their ideas through business models and low profit margins that the MSMEs generate during their initial years.

ADVANTAGES OF VENTURE CAPITAL FUNDING

- It injects long-term equity finance which provides a solid capital base for future growth.
- Venture capitalists are rewarded by business success and capital gain. The venture capitalist is able to provide practical advice and assistance to the company based on past experience.
- The venture capitalist also has a network of contacts in many areas that can add value to the company, such as in recruiting key personnel, providing contacts in international markets, introductions to strategic partners, and if needed, co-investments with other venture capital firms when additional rounds of financing are required.

MODE AND CRITERIA OF INVESTMENT

MODE

- Venture capital provides financial assistance primarily by way of equity or equity-linked capital investment.
- It also endeavours to provide mentoring support and other value addition to enable funded companies to achieve rapid growth and achieve and maintain their competitive edge in domestic and international markets.
- The Venture Capital fund seeks a strategic stake in the funded companies with board representation and other rights as venture capital investor.

CRITERIA

Venture capitalists are higher risk investors and, in accepting these risks, they desire a higher return on their investment. The venture capitalist manages the risk/reward ratio by only investing in businesses which fit their investment criteria and after having completed extensive due diligence. The Criteria is as follows:-

- Strong and committed core team
- Growth potential
- Long-term competitive advantage
- Viable business plan
- A clear exit plan
- Clear Financial Projections
- Modus Operandi of company

INSTITUTIONS OFFERING VENTURE CAPITAL FUNDING

- SIDBI Venture Capital Limited (SVCL)
- IFCI Venture Capital Funds Limited (IVCF)
- Helion Venture Partners/ Erasmic Venture Fund
- Accel India Venture Fund/ SeedFund
- Upstream Ventures
- Aavishkaar India Micro Venture Capital Fund (AIMVCF)
- IL&FS Trust Company Limited
- Infinity Venture India Fund
- Walden International Investment Group
- SEAF India Investment and Growth Fund
- ICICI Bank's SME venture capital fund
- IDBI Bank's SME venture capital fund etc.

C. NEW FINANCIAL AIDS

➢ MSME EXCHANGE

There is a general lack of awareness among MSMEs about equity capital, stock markets and funding options, other than banks. So far, there have been only debt-financing options, without any access to alternative equity options. The small and medium exchanges for MSMEs listing norms unlike the regular listing on a SME platform through an IPO are a major introduction. Meant for MSMEs with a paid-up capital of less than 25 crore INR, it empowers them to tap into the capital markets by getting listed on the exchange without having to make any initial public offering. To enable MSMEs to get over the liquidity crisis that they continue facing, regulators have mandated market making in the MSMEs Exchange platform, to ensure that liquidity is generated.

Moreover, the sector is highly unorganised and fragmented, and the new MSME exchange will facilitate the creation of a financial ecosystem for MSMEs in India. The trend in this sector has been of overleveraging debts for lack of opportunity to raise equity capital. The revised ecosystem therefore has to justify opportunities of raising equity capital, balancing the debt equity ratios of companies and facilitate these enterprises to sustain a healthy balance sheet. The need for Indian MSMEs to acquire capital at low cost to compete at a global level is one of the key factors behind the creation of this revised framework.

The newly introduced MSME exchange will acknowledge the expansion aspirations of these MSMEs and help them find solutions to their financial requirement. Companies will be high on the valuation matrix, once they get listed on the exchange. The tax benefits are immense as well. By remaining unlisted, any company attracts a 15% long-term capital gains tax on the sale of shares, while a listed company attracts none. The listing will also hopefully bring about a sea change in transparency and corporate governance in the listed firms and ensure better visibility among investors.

COMPLIANCE NORMS TO BE FOLLOWED BY MSMEs

- They need to submit half-yearly financial results instead of quarterly ones.
- They can send the abridged version of the annual report with the details of the profit-and-loss account and balance sheet to the shareholders, instead of a full annual report.
- They can make the soft copy of the annual report available on their website. They can send the soft copy to the Exchange, regulators and the Registrar also.
- The enlistment also comes with a market making support for three years in the secondary market which will ideally help create the desired liquidity for MSMEs. Considering the fact that there are 15 million to 20 million investors in the capital market who can invest in these companies through any of the branches and franchisees of more than 1600 BSE members, the influence on the investor base for these MSMEs will be manifold, thus improving their valuation and promoting wealth creation.

➢ SECURITIZATION OF MSME CREDIT

With a view to widen the scope of assistance to MSMEs, the process of asset securitization offered opportunities to purchase the MSME portfolio from originators and channelize funds to the sector. The portfolio so purchased was either retained by the purchaser or sold to the investors in the capital markets through structuring of suitable instruments.

D. GENERAL FINANCING SCHEMES

These are few financing schemes drafted for the MSMEs, which the industry could approach for (depending on their requirement). Almost all the public sector banks do provide the following schemes namely:-

➢ SME Credit Card – Loans upto INR 10 lakh for micro enterprises.
➢ SME Smart Score – Loan upto INR 50 Lakh for manufacturing, trade and services segments to meet working capital needs and for acquisition of fixed assets.
➢ SBI Smile – It provides interest free loan as equity assistance upto a maximum of INR 10 lakh.
➢ Non Corporate Loan from INR 25 lakh to INR 10 crore.
➢ SME Credit Plus – It provides a clean cash credit policy to meet contingencies.

CONCLUSION

MSME has recorded 10% growth in recent years despite economic slowdown but issues related to credit like adequacy, timely availability, costs and mortgages; continue to be the concern for MSMEs. In the decades to come, MSME sector will continue to be one of the engines for growth for the country's economy, and presents a significant business opportunity for both banks and alternative service providers. MSMEs are the best vehicle for inclusive growth, to create local demand and consumption. The MSMEs of yesterday are the large corporates of today and could be MNCs of tomorrow. Thus, the banks and other agencies should take pride while servicing the MSMEs as they are playing an instrumental role in the formation of MNCs of tomorrow. MSMEs themselves have to be on their toes, in this rapidly changing business environment, and keep evolving to stay clear of all the potential pitfalls that confront them in their progress from small enterprises to large corporations. Today also, MSME sector is largely dependent on self finance. Profit margins are thin due to stiff competition and small size. Since 1948, successive governments have been making intense efforts to encourage MSME but the sector continues to be under financial stress. The office of Development Commissioner was established for MSME in 1954 and a dedicated ministry for MSME in 1999. The SIDBI is the principal financial institution for promotion, development and financing of MSME in addition to Commercial Banks, State financial corporations and State Industrial Development Corporation.

Today, the government's drive for Financial Inclusion could benefit MSME. The extent of Financial Inclusion in MSME is high and notwithstanding the increase in credit outstanding in recent years, access to adequate and timely availability of from banking system is still a critical problem being faced by this sector. Alternative sources thus steps in and assist the MSMEs in their growth and development. Access to finance is important to improve their competitiveness as they need to invest in new technologies and innovative capabilities. The Government could consider dedicating specialized financial schemes, for addressing difficulties in assessing and providing credit for the MSME, as also providing line of credit to firms which are under financial stress.

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