



“Policies and schemes of banks and financial institution for small scale industries”

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Abstract:

Small Scale Industries are important for any country whether it is developed or in development stage. The small scale industries are backbone of socio- economic development. The small scale units provide a level playing field to the entrepreneurs to demonstrate their skills and enterprising spirits. The small scale sector however is at the mercy of policies of the governments. The small scale sector directly dependent upon the financial avenues available and can develop only when the helping hands extended by the government and will remain handicapped if its financial requirements are not fulfilled by the various contributors. However, the contribution may not be satisfactory due various reasons such as lack of knowledge on the part of small scale business owners and unfavorable policies. The governments of India in recent years decided to rejuvenate the small scale sector through Favourable policies and schemes.

Introduction

Small Scale Industries are capital light and make use of local resources hence they play a vital role in the economy. Its growth rate reflects the economic potential of a country. It helps a country to achieve the development such as providing employment to youth, eradication of poverty etc. as more job opportunities are created, export levels are increased

as more raw materials is turned into finished products, avoid foreign debt and provide currency gains much value over other countries

According to MSME (Micro Small and Medium Enterprises) Act 2006 , the definition of small scale industries is based on the criterion of capital investments for manufacturing business"the Small Enterprise is one in which the investment in plant and machinery is more than twenty five lakhs rupees but does not exceed five crores."

Small scale industries have a primary importance for every nation's economic growth and development due to variety of reasons. The Government shows a major interest in supporting entrepreneurship. As this is one of the means through which new jobs can be created, which can lead to increase in GDP and raising standard of its citizens. Every business means new jobs and growth of GDP. The government at both central and state level established various financial institutions to provide non-financial and financial assistances to small-scale industries. As the small-scale industries are weak financial structure, they require non-financial assistances also so that, they could compete with large scale industries. The government established various institutions to provide non-financial assistances exclusively to the small-scale industries. (SIDBI, DIC, MSSIDC) In the same way there are institutions in addition such as commercial banks which cater to the financial requirements of small scale industries.

Objective of Study

The objective of this paper is to study and understand the various sources of finance obtained by the selected units each of Small Scale industries involved in Food Products and Processing, Chemical Manufacturing and Engineering goods in Dombivli MIDC area of Thane district of Maharashtra. For the period 2010-11 to 2015-16 and the data published by the ministry of MSME government of India and DIC Thane.

Review of Literature:

The role of finance has been considered as an important element for the development of small scale enterprises. Previous studies have highlighted that there was limited access to financial resources for smaller enterprises as compared to larger organizations and consequent growth and development of the sector. Historically, small scale industries faced higher interest and other carrying costs than larger enterprises in obtaining credit. Deficient money has been common phenomenon to finance working capital needs of small enterprises.

N. Aruna 2016ⁱ, studied the MSMEs and analyzed and interpreted five major problems faced by MSMEs in Visakhapatnam. She observed that the obstacle in the development of small scale industries were, lack of information technology support, ITs literacy, lack of formal procedure and discipline, uneven ITs awareness and management skills, raw material problems, production problem, etc. and concluded that it was due to the acute power shortage. The industrial units were managing only half of the capacity and the situation turned from bad to worse and resulted in inability to pay even to workers salary.

Balvinder Singhⁱⁱ, 2015, He studied financial problem in small-scale industries in his research paper. He used ratio as parameters for evaluating the financial position. The absolute accounting figures reported in the financial statements. They did not provide a meaningful understanding of the performance and financial position of the firms. Information alone does not give meaningful reply. He studied that, If we see profit of 5 crores in the books of accounts it is not the reflection of good or bad performance unless we relate it to the other figures and financial indicators. He raised basic logical queries such as net profit of 5 crores earned out of what investment?, how much we have invested in the firm?, out of which we have earned this profit of this 5 crores only then we can say it is good or bad “The relationship between two mathematical figure is known as financial ratio or simply as ratioⁱⁱⁱ”.

M. A. Siddiqui^{iv}, 2015, studied and presented that MSMEs comprises more than 80% of total enterprises in most of the economies. In recent years, the MSME sector consistently registered higher growth rate as compared with the overall growth of large industrial sector. MSMEs are complementary to large industries as ancillary units. The key focus areas for the growth of MSMEs are finance, technology, infrastructure, marketing, entrepreneurship development, sickness and conducive regulatory environment.

Tunji Akande^v, 2014, Demand-side factors needed to be considered by improving the small scale industries. The root cause is to ask whether a policy actually addresses factors like limited demand for labor. Recently, public policy was designed to encourage youth to undertake entrepreneurship, which can make them create employment for themselves and also become employers of labor. However, in the long-run, the industrial sector must also expand to create opportunities for youth.

Anshu Taunk & Dr. Abhimanyu Kumar^{vi}, 2013, observed during 1995 - 2010 witnessed a growing trade towards globalization and liberalization with integration of the production processes by subcontracting and international division of labor, dismantling of institutional

barriers to international trade and capital flows, and rapid technological advances particularly in information flow and communication. The same geared the pace of growth of world trade and thrown up opportunities for emerging economies.

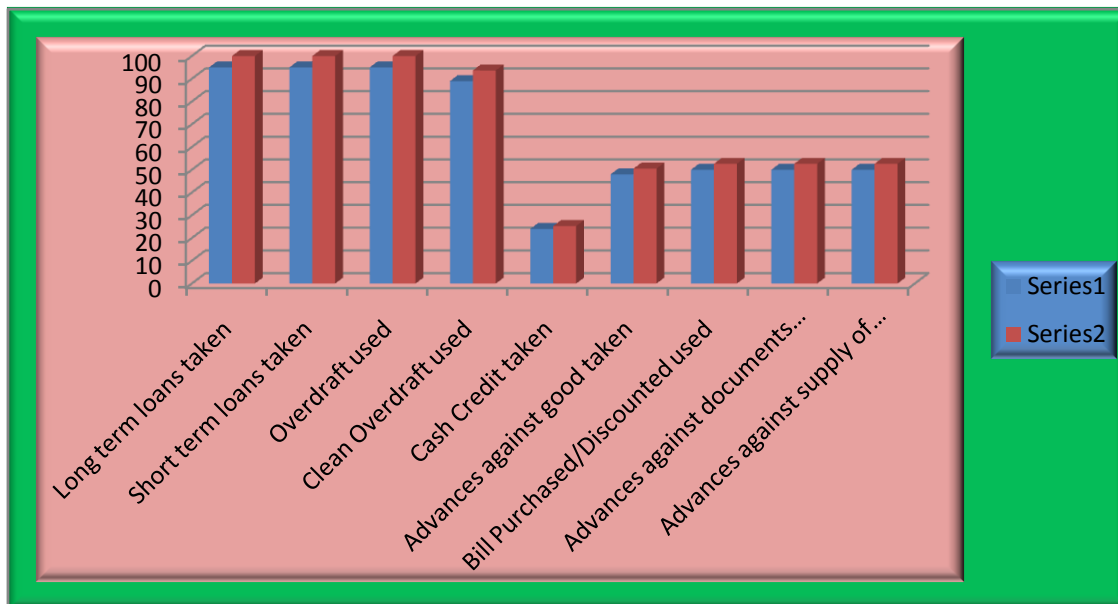
Collection of data

The data is collected from ninety five units of ten different types of small scale industries involved in Pharmaceuticals, Engineering, Chemical manufacturing, Electronics, Electrical goods Rubber & Plastic products , Textile manufacturing, Information Technology, Food products Industries and Auto spare & ancillaries sector. The data is collected about various aspects of small scale industries for larger academic research by framing scientific questionnaire from M.I.D.C. area of Dombivli of Thane district of Maharashtra for the period 2010-11 to 2015-16.

Analysis of data

The collected data is tabulated and presented as under:
Central & State Government Policies play a greater role in development of Small Scale Sector. Therefore small scale sector has been assigned an important role in India's national plans. Accordingly present study derived the following policies adopted by various small scale industries in the study area. In order to protect, support and promote small enterprises and also help them become self-supporting, a number of protective and promotional measures have been undertaken by the Government. The financial schemes are in the form of short term financial schemes available to small scale sector and long term financial schemes being introduced by the governments and utilised by the small scale industries are as follows:

| Table 1: Short term finance obtained under policies and schemes of various banks and financial institution for small scale industries. | | |
|--|----|--------|
| Long term loans taken | 95 | 100.00 |
| Short term loans taken | 95 | 100.00 |
| Overdraft used | 95 | 100.00 |
| Clean Overdraft used | 89 | 93.68 |
| Cash Credit taken | 24 | 25.26 |
| Advances against good taken | 48 | 50.53 |
| Bill Purchased/Discounted used | 50 | 52.63 |
| Advances against documents of title to goods used | 50 | 52.63 |
| Advances against supply of Bills used | 50 | 52.63 |
| Source: Primary data from the study region. | | |



Study revealed that cent percent small scale industry owner respondents used Long term loan, Short term loans, Overdraft from the various banks in their survival period. Similarly 93.3 % small scale industry owners used Short term loans regularly under the banks financial scheme, clean Overdraft facility. The 52.5 % small scale industry owners responded are using various banks schemes ‘Bill Purchased/Discounted’, ‘Advances against documents of title to goods’, ‘Advances against supply of Bills respectively’. The 50.0 % small scale industryowners responds are using various banks schemes ‘Advances against goods regularly. And the ‘cash credit’ schemes of banks used by 25.0 percent of small scale industry owners. In the Dombivli MIDC Area, district Thane, Maharashtra.

Government of India offers constant support to help small scale industry owners and address their financing woes and has launched several schemes to channel long term loans. The five most important schemes launched by the Government of India to help small scale industry. The small scale industry owners find answer to their financial problems under the government scheme as below:

- 1) The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGFS)
- 2) Credit Link Capital Subsidy Scheme for Technology Upgradation (CLCSS)
- 3) Market Development Assistance Scheme for MSME (MDAS)
- 4) Technology and Quality Upgradation Support to MSME (TQPS)
- 5) Mini Tools Room and Training Centre Scheme (MTRTCS)

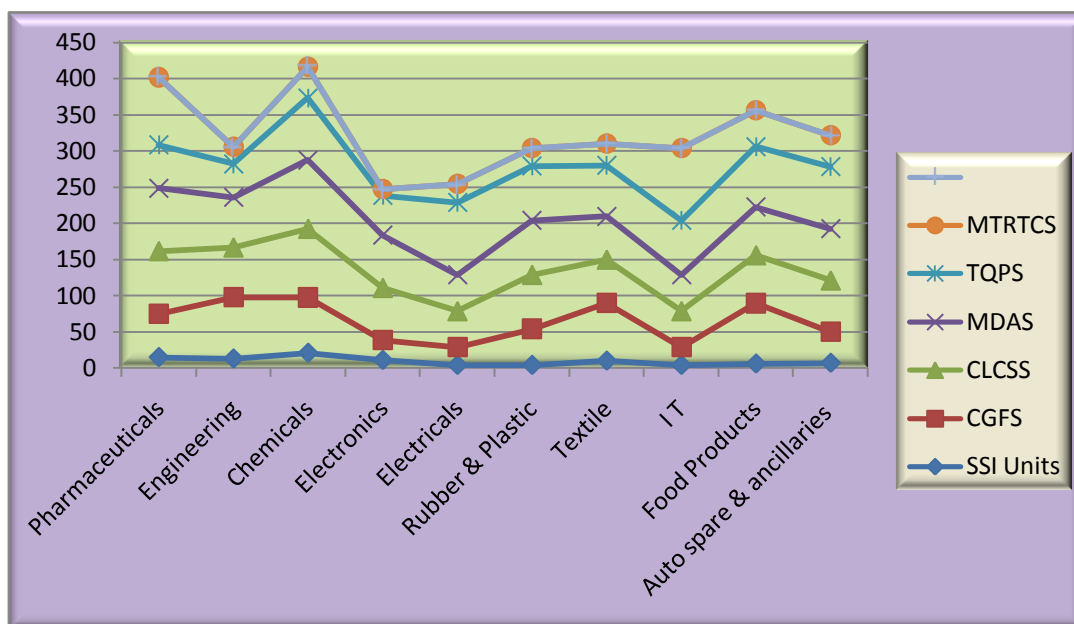
Table 2: Percentage distribution of Government schemes utilized under long term loans by the SSIs, Dombivli MIDC during study period..

| Sr.No. | Types of SSI | SSI Units | CGFS | CLCSS | MDAS | TQPS | MTRTCS |
|--------|--------------------------|-----------|------|-------|------|-------|--------|
| 1 | Pharmaceutical | 15 | 60.0 | 86.7 | 86.7 | 60.0 | 93.3 |
| 2 | Engineering | 13 | 84.6 | 69.2 | 69.2 | 46.2 | 23.1 |
| 3 | Chemical | 21 | 76.2 | 95.2 | 95.2 | 85.7 | 42.9 |
| 4 | Electronic | 11 | 27.3 | 72.7 | 72.7 | 54.5 | 9.1 |
| 5 | Electrical | 4 | 25.0 | 50.0 | 50.0 | 100.0 | 25.0 |
| 6 | Rubber & Plastic | 4 | 50.0 | 75.0 | 75.0 | 75.0 | 25.0 |
| 7 | Textile | 10 | 80.0 | 60.0 | 60.0 | 70.0 | 30.0 |
| 8 | I T | 4 | 25.0 | 50.0 | 50.0 | 75.0 | 100.0 |
| 9 | Food Industries | 6 | 83.3 | 66.7 | 66.7 | 83.3 | 50.0 |
| 10 | Auto spare & ancillaries | 7 | 42.9 | 71.4 | 71.4 | 85.7 | 42.9 |
| | Total | 95 | 62.1 | 75.8 | 84.2 | 70.5 | 44.2 |

Note: Government Schemes

- 1) The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGFS)
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Source: From primary data of the study region.



1) **The Credit Guarantee Fund Scheme:** It provides collateral-free credit to Indian MSMEs, The Development Bank of India (SIDBI) established a trust to implement the scheme. It provides credit facilities in the form of term loans and working capital facility of up to Rs. 100 lakh per borrowing unit. The amount is contributed by the Government and SIDBI in the ratio of 4:1, respectively.

2) **Credit Linked Capital Subsidy Scheme for Technology Upgradation:** It is process as well as help to SMEs to reduce cost of production and remain price competitive in the global market. Ministry of Small Scale Industries runs a scheme for technology upgradation of SSIs. Known as the Credit Linked Capital Subsidy Scheme (CLCSS), it aims at facilitating technology upgradation by providing upfront capital subsidy of 15% (limited to maximum Rs.15 lakhs) to small scale industrial units for credit availed by them for the modernization of their plant and machinery. All sole proprietorship, partnership firms, cooperative, private and public limited companies are eligible for this scheme. Since the inception of this scheme, more than 28,287 units have availed subsidy of Rs.1619.32 crores.

3) **Market Development Assistance Scheme:** This Scheme for MSMEs offers funding for participation in international trade fairs and exhibitions under MSME India stall. It also offers funding for sector-specific market studies by industry associations, export promotion councils, and known popularly as "FIEO", this apex body of Indian export promotion organizations was set up jointly by the Ministry of Commerce, Government of India and private trade and industry in the year 1965. FIEO is thus a partner of the Government of India in promoting India's exports.

4) **Technology and Quality Upgradation Support:** This scheme aims at sensitizing the manufacturing MSME sector to use energy efficient technologies and manufacturing processes in order to reduce production cost and emissions of harmful gases. For this, the Government of India provides financial support to the extent of 75% of the actual expenditure to help manufacturing MSMEs buy energy efficient technologies for production.

5) **Mini Tools Room and Training Centre Scheme:** To assist state governments set up Mini Tool Rooms and Training Centers, the Government of India provides financial assistance in the form of one-time grant-in-aid. The financial aid equals to 90% of the cost of machinery/equipment (maximum to Rs. 9 crores) in case new Mini Tool Room has to be created and 75% of the cost (maximum to Rs. 7.50 crores) in case an existing room has to be upgraded. This scheme is to develop more tool room facilities in order to provide

technological support to the MSMEs and training facility in tool manufacturing and tool design to create a workforce of skilled workers, supervisors, engineers/designers, etc. Researcher derived following data regarding utilization of schemes by SSIs in study region.

The study revealed that almost all types of SSIs have utilized government of India's schemes the Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGFS). Maximum 84.6 % utilization done by engineering SSIs, while lowest 25% utilisation of same by the Electrical, electronics and information Technology SSIs. It is so because the SSIs requiring higher investments, utilized more funds.

All types of SSIs have used CLCSS scheme. This scheme is aimed at technology upgradation; it is prudent on the part of SSI owners to utilize the funds under this scheme so that they are better placed in the market. Pharmaceutical, Engineering Chemical, Electronic, Rubber and Plastic, Food industries, Auto Ancillaries require more funds in capital goods than their other counterparts.

The Market Development Assistance Scheme is also utilized by almost all categories of the SSIs. This is so because the MIDC region of Dombivli is very close to Mumbai market. Technology and Quality Upgradation Support scheme is also utilized by all categories of SSIs. However, Engineering and Electronic categories of SSIs utilized less because upgradation is possible only in large scale units and the small units are tradition bound.

Mini Tools Room and Training Centre Scheme (MTRTCS) This scheme is utilized to the maximum extent by pharmaceuticals and Information and Technology sector of small scale industry because it is the necessity of these units to improve tool rooms so that necessary back up can be provided to semi-skilled and skilled work force.

Conclusions:

1. The banks and financial institutions are following proper guidelines in extending funding to small scale industries in the study area. The data analysis showed that almost all the SSI owners utilized various policies and schemes of banks and financial institution for small scale industries in a methodological manner. The data showed that all small scale unit holders were aware of various policies of banks for extension of credit and utilised cent percent funding of long term loans, short term loans, overdraft facilities, etc. some of the unit holders were not aware about cash credit facilities, clean overdraft facilities, advances against

goods, discounting or purchase of bills, advances against document of title to goods and advances against supply of bills.

2. The nationalized banks in particular played a major role in financing the small scale industries. The public sector banks are liberal in following the guidelines of the government.

3. The Urban Cooperative Banks are the second major contributor of funding to small scale industries in the study area. The policies of urban cooperative Banks are not tailor made. The policies are customised and framed according to government guidelines and the needs and conditions of the area and the sector in which the small scale units are engaged.

4. The Private Sector Banks are also one of the sources of finance to the small scale industries in the area. The private sector banks can also play a key role in funding the small scale industries but the banks are strict and follow cumbersome procedures particularly in relation to the requirements and formalities to be followed. This is so because the private banks are profit motivated and the policies of such banks are framed to minimize the possibility of its assets turning non performing.

5. The Private sources are also fairly used source of finance in the beginning of business and when the possibility of finance from other sources is less or when the other sources dries up or timely finance is not available to small scale units. The entrepreneurs have to rely on their friends, relatives, well-wishers and other private professional money lenders for fulfilling their financial needs. However, this source is proving costly to the small scale units because the private money lenders charge hefty rates of interest and hence proving detrimental to the interest of small units.

ⁱN. Aruna, 'Problems Faced By Micro, Small and Medium Enterprises – Special Reference to Small Entrepreneurs in Visakhapatnam', IOSR Journal of Business and Management (IOSR-JBM), e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 17, Issue 4. Ver. V (Apr. 2015), PP 43-49, www.iosrjournals.org

ⁱⁱBalvinder Singh, 'Growth of Small Scale Industries in Punjab' "International Journal for Science and Emerging Technologies with Latest Trends" 21(1): 1- 6(2015)

ⁱⁱⁱDr. Satish B.Mathur, "Sickness in SSS – Causes and Cures", Concept Publishing Co., New Delhi, pp. 12, 1999.

^{iv}MA Siddiqui, Engines of Growth - A Study of the Growth and Performance of Indian MSMES in the Present Scenario, International Journal of Core Engineering & Management (IJCEM) Volume 2, Issue 1, April 2015

^vTunji Akande, Youth Unemployment in Nigeria: A Situation Analysis, <http://www.brookings.edu/> September 23, 2014

^{vi}Anshu Taunk & Dr. Abhimanyu Kumar, "Fear and Challenges Faced by Small Scale Industries of India in the World of Globalisation", Global Journal of HUMAN SOCIAL SCIENCE, Interdisciplinary Volume 13 Issue 3 Version 1.0 Year 2013 Type: Double Blind Peer Reviewed International Research Journal, Publisher: Global Journals Inc. (USA), Online ISSN: 2249-460x & Print ISSN: 0975-587X