



## **INSTITUTIONAL FINANCE FOR THE PROMOTION OF MSMEs IN INDIA: A CASE STUDY OF CHITTOOR DISTRICT OF ANDHRA PRADESH**

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### **Abstract**

*Micro, small and Medium Enterprises (MSMEs) play a very significant role in almost all countries of the world irrespective of their development stage. Developed countries like Japan, China, Malaysia, Taiwan, the United States of America and the United Kingdom have developed through developing many aspects of MSMEs business such as employment generation, export, tax, income, innovation and competitiveness. The recent wave of Globalization has influenced overall business of the world. The MSMEs have prospered better under this wave of Globalization. Particularly in India, they have made a significant impact on income distribution, social stability, domestic resources utilization technique, structural and regional development, exports, employment and creation of a broad entrepreneurial base. Hence, the MSMEs' are rightly regarded as the backbone of modern Indian economy. With the advent of planned economy in 1951, and the subsequent industrial policy of the Government of India, both planners and the Government have earmarked financial resources for small and medium industries that play a special role in the economy. This paper is focus on Financial institutional in Chittoor district of Andhra Pradesh.*

**Key Words: Institutional, Financial, Assistance, Development.**

### **Introduction**

The MSMEs can be easily established since their requirements in terms of capital, technology, management and even utilities are not as demanding as it is in the case of large enterprises. Their development is closely associated with more equitable distribution of income and thus important as regards poverty alleviation. At the same time, the MSMEs serve as a training ground for emerging entrepreneurs in some of the Asian countries. The full potential of the MSMEs has yet to be tapped as there are a number of constraints hampering their development.

In India, state and private enterprises co-exist. The Small and Medium Enterprises sector and businesses are left completely to private enterprises. Of late, development of the MSMEs has become extremely important to achieve all round development in the country. Consequently, many MSME opportunities are emerging in fields like electric goods and applications, medicine, engineering, agriculture, communication, atomic-energy, telecommunications, food technology, packing and the like. These opportunities have been increasing rapidly. A robust and vibrant MSME sector can derive benefits from the new opportunities in both public and private modes. In recent years both government and private agencies have initiated strategies and programmes for developing the skills to run MSMEs among people. The MSMEs produce a wide range of industrial products such as food products, beverage, tobacco and tobacco products, cotton textiles, wool, silk, synthetic products, jute, hemp & jute products, wood and wood products, furniture and fixtures, paper and paper products, printing, publishing and allied industries, machinery, machines, apparatus, appliances and electrical machinery. MSMEs also include a large number of service industries.<sup>1</sup>



### **Importance of Finance**

Blood is crucial to body and the leading financial institutions are as crucial act as blood to the large and medium scale sectors. The transfusion of blood enriches the recipient but does not impoverish the donor. Financial support from institutional sources is not only essential for the growth of industry but is perhaps even necessary for its very survival. When finance is easily available, industrial development can be accelerated as there is a source of access to funds on reasonable terms and conditions.

Financial needs of small-scale industries may be broadly divided into two categories i.e. fixed capital and working capital. The first category (i.e., fixed capital) needs resources to be deployed for a long period and the second category involves resources for a short period. The long-term finance is needed for creating assets like land and buildings, plant and machinery. The short-term finance is needed for purchasing of raw materials and for meeting the day-to-day requirements of business. The fixed capital requirements are met usually by issue of shares and debt securities. In small scale units the equity capital is generally provided by the entrepreneurs themselves. The entrepreneurs often supplement their own contribution with funds raised from their friends and relatives. The small entrepreneurs also borrow on long term basis from the financial institutions and others to meet their fixed capital requirements. The working capital needs are met by drawing on; (a) owner funds; (b) funds from operation; (c) long term borrowings; (d) spontaneous financing (trade creditors), and (e) short-term borrowing from commercial banks and others. The working capital is needed to purchase raw material, stores and to maintain required level of inventory. It is also required to maintain cash balance and also to make credit sales to customers. Moreover, the present-day financial requirements of the business are met out of the funds drawn on working capital. The level of working capital in any organization depends upon the operating cycle, nature of the business and the capital market situation.<sup>2</sup>

### **Review of Literature**

The review of Literature as follows in MSMEs by Financial institutional in Chittoor district of Andhra Pradesh.

**Fonger, Jurgen (2017),**” has mentioned in his thesis, “Dynamic Capabilities and Growth of Small and Medium Sized Enterprises - A Study among companies in North Rhine - West Phalia (Germany),” that dynamic capabilities approach, international orientation and financial capabilities have correlation for growth of SMEs. The risk avoiding tendency of SMEs has been observed as a cultural pattern in German and dynamic environment as negative influence on growth.<sup>3</sup>

**Mukharjee (2018)** in her study, “challenges to Indian Micro, Small Scale and Medium Enterprises in the era of Globalization,” on Indian coir industry has emphasized huge investment in modern technology, research, digital technology, manpower, bank credit, improved legislation, infrastructure development to make Indian MSMEs globally competitive.<sup>4</sup>

### **Objective of the Present Study**

This paper examines the role played by APSFC in the financing pattern of MSMEs during the last decade. The study main objectives as follows:

1. Development of Financing Institutions in India.
2. Institutional Financing for MSMEs by APSFC in Chittoor District of Andhra Pradesh.



### **Statistical Tools and Technique**

The sources of data for this study secondary data. With a view to examine the financial assistance by APSFC the MSMEs are selected in Chittoor district of Andhra Pradesh. The data and information was also obtained from the secondary sources like annual reports and Ni-MSME in-house monthly magazine, research papers. The discussions with entrepreneurs and officials of District Industries Centre (DIC) have also lead to obtain some useful information. The Tools was Mean, SD, CV, GLR were calculated in 2006-07 to 2015-16.

### **Development of Financing Institutions in India**

As stated earlier, the conventional banker, being purely security oriented, does not show interest in the development of small-scale industries. Hence, during the Second Five Year Plan, it was felt that the commercial banks have to take interest in financing small scale enterprises. For the first time, the State Bank of India, has instituted a pilot scheme to meet all types of credit requirements of small scale industries fully under liberalized rules and procedures. In 1969 when the 14 major commercial banks were nationalized, other commercial banks have also made efforts to support the development of small-scale industries.

The SIDBI was established in 1990 as the apex refinance bank. The SIDBI is operating different programs and schemes through 5 Regional Offices and 33 Branch Offices. The financial assistance of SIDBI to the small-scale sector is channelized through the two routes- direct and indirect. The Small Industries Development Bank of India (SIDBI) was established, in 1999 – 2000 as a subsidiary of IDBI. The SIDBI administers both the small industries development and the national equity funds for providing equity support to tiny and small-scale industrial units, in addition to providing developmental finance to small scale industries. The financial institutions including commercial banks have taken over a large number of functions like development of entrepreneurship, provision of technical and management consultancy and other related activity.

The Industrial Finance Corporation of India Limited (IFCI), the first development finance institution set up in 1948 and since July 1, 1993, it has been brought under companies Act, 1956. The IFCI extends financial assistance to the industrial sector through rupee and foreign currency loans, under writing direct subscription to shares debentures. It guarantees and also offers financial services through its facilities for equipment procurement, equipment leasing and finance to leasing and hire-purchase companies. It also provides merchant banking. The IFCI has started new promotional schemes, such as (a) interest subsidy schemes for women entrepreneurs (b) consultancy fee subsidy schemes for providing marketing assistance to small-scale industry and (c) encouraging the modernization of tiny, small-scale industries.

The Entrepreneurship Development Institute of India (EDII) it is the principal financial institution for promotion, financing and development of small-scale industries in the economy. It aims to entrepreneurship development of Micro, Small and Medium Enterprise (MSME) sector with a view to contributing to the process of economic growth, employment generation and balanced regional development.

State Financial Corporation Act 1951 was brought into force to enable all the state governments (except Jammu and Kashmir) to set up State Financial Corporations as regional development banks. State Financial Corporations provide long term finance to industrial entrepreneurs, subscribing equity and debentures of industrial entrepreneurs, providing financial assistance to small and medium enterprises



engaged in service sector and provide working capital loans and meeting various short term needs of their clients.

Scheduled commercial bank is a different type of bank that is a provides a most services such as accepting a deposit, making business loans and also offering basic investment products. Scheduled commercial bank is a public sector bank it's can be refer to the bank or a division of a bank that is deals with deposits and loans from corporations or large business. In the developed country like United States in the terms scheduled commercial bank was used to distinguish it from an investment bank due to the different bank regulation. After great depression, through the Glass-Seagull Act, in the United State Congress required the commercial banks to engaged only in banking services sector activities.<sup>5</sup>

Efforts were made for the development of industries in the state and several large and medium-scale industries and many small-scale industries were established around the towns. The important industries grounded are sugar industry, textile industry, confectionary factory and distilleries. Further, for the promotion of industries in the district, District Industries Centre was established by providing all assistance through single window. Financing for MSMEs by APSFC in Chittoor district during the period from 2006-07 to 2015-16 is presented in table 1.

**Table 1, Financing for MSMEs by APSFC in Chittoor District during the Period from 2006-07 to 2015-16 (Rs. In thousands)**

| Year          | Chittoor district                   |                  |
|---------------|-------------------------------------|------------------|
|               | Micro, Small and Medium Enterprises |                  |
|               | Sanctioned                          | Disbursement     |
| 2006-07       | 104656                              | 55790            |
| 2007-08       | 54584                               | 74635            |
| 2008-09       | 153687                              | 67863            |
| 2009-10       | 357595                              | 176829           |
| 2010-11       | 124900                              | 111400           |
| 2011-12       | 406000                              | 84000            |
| 2012-13       | 253300                              | 173400           |
| 2013-14       | 268256                              | 182546           |
| 2014-15       | 315478                              | 298125           |
| 2015-16       | 322154                              | 301897           |
| <b>Mean</b>   | <b>236061.00</b>                    | <b>152648.50</b> |
| <b>SD</b>     | <b>119278.40</b>                    | <b>90932.22</b>  |
| <b>CV (%)</b> | <b>50.52</b>                        | <b>59.56</b>     |
| <b>LGR</b>    | <b>12.87</b>                        | <b>17.39</b>     |

*Source: APSFC, Chittoor District 2015-16*

Table 1 depicts the financing for MSMEs by APSFC in Chittoor district over a ten period from 2006-07 to 2015-16. The sanctioned amount increased form Rs. 104656 thousand in 2006-07 to Rs. 322154 thousand in 2015-16. On an average the sanctioned amount during the study period was 236061.00 thousand. Whereas the disbursement amount increased from Rs. 55790 thousand in 2006-07 to Rs. 301897 thousand in 2015-16. On an average the disbursement amount recorded was Rs. 152648.50 thousand in the study period. The LGR for sanctioned amount during the study period was 12.87 per cent; whereas the LGR for disbursement was 17.39 per cent.



## Conclusion

Entrepreneurs are the backbone of any economy. They offer good employment opportunities, nurture the locally available entrepreneurial skills, help in balanced growth and improve overall economic conditions. This study is carried out to analyze the Institutional Finance for comparative study by selected MSMEs in Chittoor District of Andhra Pradesh. The performance of MSME sector has shown a steady growth during the past ten years. MSME units in Chittoor district face various problems like raw material, non-availability of power, technology and skilled labour, high cost of labour and finance. Among their problem financial problems are the most important. A major threat before MSMEs is globalization. Technology up-gradation should be periodically done in MSME units. Governments, MSME Department, Department of Industries and Commerce, District Industries Centre, Chamber of Industries and Commerce etc. should help the MSMEs units to go in for up-gradation of technology in their units. They have also expressed the view that they are dependent more on the money lenders, business and fellow industrialists who charge exorbitant interest rates. Therefore, it is suggested that government should adopt policy measures and direct the commercial banks to lend and extend financial support to MSMEs at cheaper rates so as to meet the short term financial requirements of the industrial units especially in industrially backward districts like Chittoor district.

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