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SME'S SUSTAINABLE FINANCE AND INVESTMENT BETTERMENTS IN INDIA

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Abstract
Small and Medium Size Enterprises (SMESs) financing is a prerequisite in the pursuit of sustainable economic growth and social development. None of the United Nations Sustainable Development Goals (SDGs) can be achieved without some direct or indirect input from infrastructure. And quality infrastructure, in particular, is the great enabler, serving as the platform on which improved incomes, livelihoods and human well-being can be delivered. But investing in infrastructure is capital intensive, and so funding infrastructure development comes with considerable challenges for policy-makers. These challenges in turn necessitate well-thought-out strategies that can bring about the desired economic, social and environmental impacts, and at a price tag that can be afforded, whether in Asia and the Pacific or beyond. Sustainable Finance (SF) contributes to better development and better Finance for Economic growth. Sustainable development is protecting and restoring the ecological system. SIDBI, NITI Aayog, and World Bank facilitates Sustainable Finance to encourage businesses to grow from Small Medium Enterprises to large Industries to make an enormous global impact. As per the World Bank estimate, adversely affect the standard of living of the population and climate change will reduce India’s GDP by nearly 3%.

Keywords: Financial Institutions, Risk mitigation, Women entrepreneurs, Credit scoring, Investment and Creditworthiness.

Introduction
In the Indian context, the definition of the SSI sector is largely framed in terms of cumulative investment in plant and machinery while most of the countries adopt the level of employment as the criterion for defining the SSI sector. According to the official definition adopted in India since 1998, the investment limit up to Rs.10 million in plant and machinery is treated as SSI sector. However, in respect of certain specified items such as hosiery, hand tools, drugs & pharmaceuticals and stationary items above investment limit in plant and machinery has been enhanced up to Rs.50 million. Since 1967, there is a policy of reserving selected products in the manufacturing sector for exclusive production in the SSI sector. The list of reserved items has been revised from time-to-time.

Among the developing countries, India was the first to display special consideration to SSIs. The basic focus of Indian Government has been that, employment generation is of paramount importance in a labour surplus economy. Small enterprises manufacturing labour-intensive products make economical use of capital and absorb the abundant labour supply that characterizes an underdeveloped economy.

Financial statement lending
Financial statement lending is based primarily on the strength of a borrower’s financial position and implies availability of informative and reliable financial statements, such as audited statements prepared in accordance to widely accepted accounting standards. It is thus reserved for informationally transparent firms.

Small business credit scoring
Small business credit scoring is based on the analysis of large amounts of historical data about the SME’s owner as well as the firm. It may thus be applied to informational opaque SMEs. The data are

entered into a loan performance prediction model, which yields a score for the loan. The approach allows reduction in costs and time of granting a loan, greater consistency of credit evaluation and focus on difficult cases or large loan requests.

Credit risk mitigation in traditional lending

Specific challenges limit traditional bank lending to SMEs. These are largely related to the greater difficulties that lenders encounter in assessing and monitoring SMEs relative to large firms (OECD, 2006, 2013b). First, asymmetric information is a more serious problem in SMEs than in larger firms. SMEs often do not produce audited financial statements that yield credible financial information and have no obligation to make public disclosure of their financial reports, although they are generally obliged to produce them and make them available to relevant authorities upon request.

Opportunities for Improving SME Financing

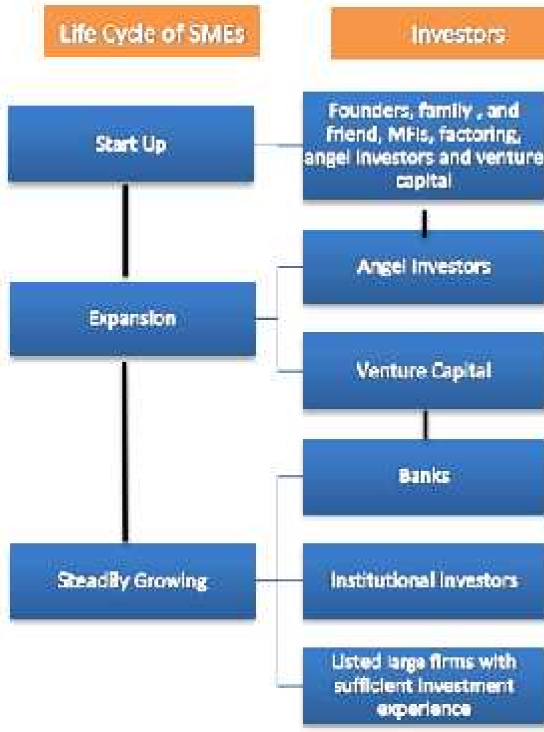
Lack of credit information is a factor that contributes to the constraints faced by SMEs as assessing their creditworthiness represents a unique challenge. Compared to larger firms, it can be more difficult for an SME to develop a credit history as they have less access to traditional sources of finance such as banks and other financial institutions whose data is typically used in the production of credit reports. At the same time, SMEs do not generally have access to fixed assets, such as land or buildings, which are usually required by banks as collateral to secure loans. Instead, SMEs mainly rely on movable assets to access finance. Finding alternatives to traditional collateral-based lending and using collateral registries to promote adequate legal and institutional protections, therefore, enable SMEs to access the resources they need to launch and operate their businesses.

Factors Influencing Financial Access

Enterprises were also asked to report ease of financial accessibility with regard to three anchored choices: the proximity of a bank or financial institution to the enterprise’s location, approachability of the bank or financial institution, and the simplicity of the process to access finance. The proximity of a financial institution was found to positively influence the opinion of financial accessibility of a large number of enterprises in the growth and sustenance stages. Enterprises in these stages would most likely have immediate financial requirements and so perceive the proximity of a financial institution to be a significant positive factor.

Growth Cycles of SMEs and Credit Providers

To improve bankability for SMEs, various government interventions to enhance SMEs access to bank credit have been promoted in the region. These government interventions involve mandatory schemes for banks or interest rate subsidies to banks. For example, Bangladesh and India have set annual credit volume targets for lending to SMEs. The central bank in the Philippines has also set up mandatory lending to MSMEs, where banks should extend 8% of their net loan portfolio as credit to MSEs and 2% to medium-sized enterprises.



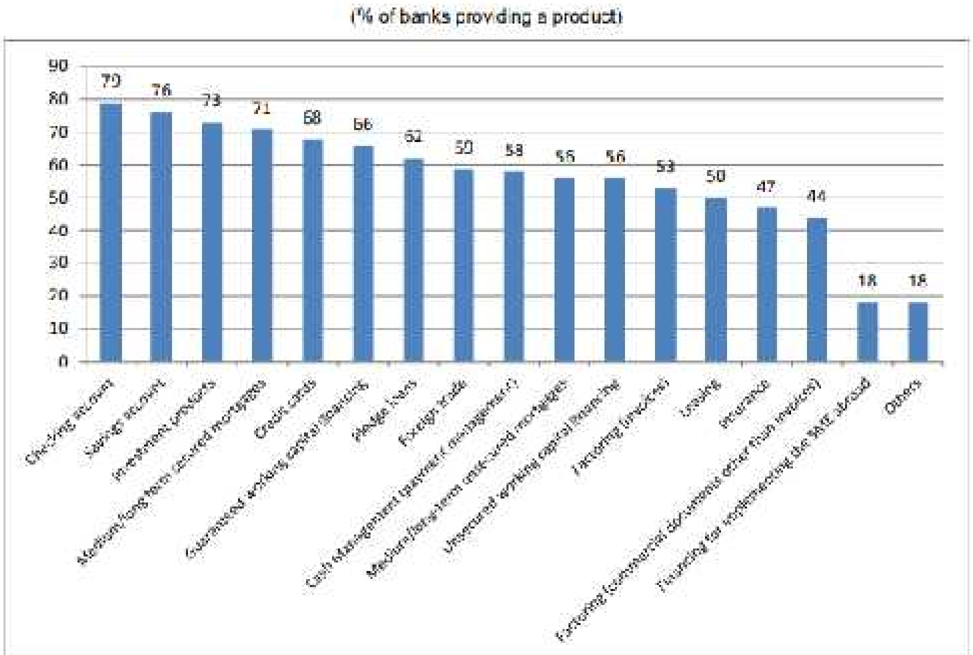
Major problems/challenges faced by SSI sector in India

- ❖ Availability of collateral free loans
- ❖ Cost of loans
- ❖ Delayed payments
- ❖ Marketing
- ❖ Challenges emanating from WTO related issues
- ❖ Sickness

A number of steps have been initiated to promote the healthy growth of SSI Sector. However, to ensure the prospects of these enterprises, SMEs, in the coming years will have to gear up to face the challenges of liberalisation.

Depending on the economy, between 10% and 30% of firms go out of business within the first two years of entering the market, and 20% to 60% do not survive beyond five years. With most firms starting out small and remaining SMEs in their initial two- to five-year-period, credit reporting on SMEs is particularly affected by high entry and exit rates.

Financial products offered by banks to SMEs



Financing programmes adapted to the needs of women entrepreneurs

Recent research in developed countries (Europe, Canada and the United States) shows that there is a new wave of financing instruments available to women entrepreneurs. This is the result of the increased concern about the difficulties that women encounter to raise capital for their businesses and the awareness of their potential contribution to employment and economic growth. Financial institutions, governments and private initiatives have developed new financing strategies to increase women's access to capital. Conventional lending practices have been revised, and special programmes adapted to the particular needs of this group have been designed.

Some successful elements which help to improve the effectiveness of credit granted to women entrepreneurs and reduce the risk of default include:

- Advisory services and/or training;
- Monitoring after the loan is given;
- Partnerships with other organizations;
- Simplified lending processes.

According to financial intermediaries, some other factors contributing to well-functioning programmes for women entrepreneurs are low or no requirements for collateral as security for loans, and preferential financing conditions in interest rates, in applications' costs and in repayment terms.

Conclusion

A well-regulated and properly functioning financial system is a necessary but insufficient condition for ensuring SMEs access to finance. Improving SMEs access to finance requires that financial institutions construct profitable and efficient credit and equity programmes for this sector. In recent years, banks and other institutions in developed countries have launched a number of innovative approaches which have made SME financing profitable. The major common challenges faced in accessing finance by enterprises in the start-up and survival stages were difficulty in provision of collateral or a guarantee, lengthy loan processing, and a lack of knowledge about available schemes.

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