IMPACT OF BANK FINANCE ON THE DEVELOPMENT OF SSI IN TIRUNELVELI DISTRICT

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Abstract

The small-scale sector has been assigned an important role in the industrial economy of the country on account of some of its inherent advantages like low capital intensity, high employment generation capacity, regionally balanced development and even distribution of wealth and income. The co-ordination committees were set up in almost all the states and officers were appointed at blocks and district levels. A number of new programmes were also conducted to create confidence in the minds of the small entrepreneurs about the assured marketability of their products.

Key words: Small scale industries, government schemes, financial assistance, industrial development, etc.

1. Introduction

In the Indian economy, small scale industry has emerged into a prominent sector in recent decades. The growth has been consistently significant not only in terms of providing employment opportunities and output. The significant factor of SSI sector is that it accounts for about thirty five per cent of the total value of exports from India. The development of small scale industries is an integral part of the overall economic, social and industrial development of a country. They produce a number of products, especially in light engineering, leather, readymade garments, hosiery, automobile components, textile machinery and components, chemicals, plastics, toys and so on. The government has given special concessions to the SSI sector in the areas such as provision of credit by banks, excise and purchase concessions by the government and so on. Some products have been reserved to be produced only by the SSIs as a measure to help the units to thrive. Since, small scale industry offers multiple benefits to an industrializing economy like India; it has increased the attention of the policy makers to a greater extent. An exhaustive institutional frame work and wide range of policies and programmes have emerged for the protection and promotion of small scale industry in India. As a result, SSI has been growing impressively and contributing, significantly to employment, industrial production and exports.

2 Review of literature

Micro, Small and Medium Enterprises (MSMEs) have been unable to achieve the competitiveness that would allow them to drive the manufacturing sector and overall economic growth, employment and poverty reduction. This is because of their lack of awareness of the market and resources, as well as the problems that MSMEs face in assessing adequate financing and business development services. Bankers are reluctant to lend to MSMEs because of the high transactions costs and perceived risks of lending in the face of insufficient credit information, inadequate credit appraisal and risk management skills, poor repayment records and low market credibility of MSMEs.

Sanjeev Mantri (2008) points out that the ICICI Bank has to take up the task of credit expansion on a challenging basis and should exploit the tremendous potentiality by establishing personal contact with small industrialists so as to reach the stipulated target of 25 per cent of their total lending going to MSME sector.

Ganeshan (2009) points out that the role of public sector banks in the small-scale sector is not confined merely to the provision of finance. The banks have to evaluate the feasibility of the project and assist the entrepreneurs to select the right type of project. He also emphasizes that adequate and timely credit at reasonable rate of interest, without collaterals is an essential requirement of the small sector in India.

Haseeb Drabu (2010) points out that the public sector banks need to change lending model to promote SMEs. He urges the banks to make conscious effort to increase the quality of loan portfolio through proper appraisal of proposal and effective post disbursal monitoring.

Kanishka Gupta (2011) examined that the main problem of MSMEs are accessing adequate and timely financing in competitive terms particularly long-term loans, which have been exacerbates by the current global finance.

Krishnaveni Muthiah and Sudha Venkates (2012) identified that the firms which are not interested in doing the business for long have not registered their firms. Consequently, firms need to know the advantages of registering their firms to avail facilities such as external credit, government orders and other services offered by the SMEs supporting institutions.

Nimlathasan (2013) explained that the entrepreneurs are playing a major role in accelerating the pace of economic development the world over by their innovative and creative approach to the process of production and product launching in the market.

Gaurav Bisaria (2014) examined the constraints and motivating factors faced by the Indian middle class women entrepreneurs with special emphasis given to Lucknow city as thee are a number of small scale women entrepreneurs in the city. Nowadays, women entrepreneurs play a significant role in the economic development and social progress of the country.

Suneetha and Sankaraiah, (2015) studied the problems of MSMEs and entrepreneurs in Kadapa district. The study conducted a survey on 156 enterprises to study their problems. It was found that 103 enterprises were facing financial problems and among them 62.8 per cent were micro enterprises.

3. Statement of the problem

Contribution of SSI units to the national economy is very significant in recent years. The finance is the backbone which supports the SSI for its sustainable growth. Finance, particularly working capital requirements of SSIs have been growing considerable due to their consistent high growth and increased activities. Most of the SSIs have been facing a financial crunch for want of timely credit facilities from the banking sector and delayed payments from the customers and most of the SSI units are unable to provide collateral securities for their loan requirements. As a result, many times financial institutions and commercial banks were reluctant to lend to the SSIs despite having adequate funds. The small scale industries covering a wide spectrum of industries in small, tiny and cottage sector occupy an important position in planned development of Indian economy and has grown to be most vital sector of our country. This being the case, there is a need for small scale industries to be an encouraged for vast growth and development by several means, particularly free flow of financial assistance. Like any other industry, small scale industry is also not an exception to the changing conditions of national and international environment.

4 Objectives of the study

The main objective of the study is to assess the impact of bank finance to the development of SSI in Tirunelveli district. Based on this main objective the following other objectives are framed:

1. To assess the availability of finance from various banks to SSI.
2. To study the government schemes for the development of small enterprises.
3. To study the problems faced by small scale industries.
4. To offer suggestions for better prospects and development of small scale industries.

5. Financial assistance to SSI

Direct bank finance to micro and small enterprises sector shall include all loans given to SSI units which are engaged in manufacture, processing or preservation of goods and whose investment in plant and machinery excluding land and building does not exceed the amounts specified in Section I, appended. Indirect finance to SSI shall include finance to any person providing inputs to or marketing the output of artisans, village and cottage industries, handlooms and to co-operatives of producers in this sector.

TABLE 1

Bank Credit to Micro Small and Medium Enterprises

Report of Year Ending	Public Sector Banks	Private Sector Banks	Commercial Banks
2005	67,800	8,592	83,498
2006	82,434 (21.6)	10,421 (21.3)	1,01,285 (21.3)
2007	1,02,550 (24.4)	13,136 (26.1)	1,27,323 (25.7)
2008	1,51,137 (47.4)	46,912 (257.1)	2,13,538 (67.7)
2009	1,91,408 (26.6)	46,656 (0.0)	2,56,127 (19.9)
2010	2,78,398 (45.4)	64,534 (38.3)	3,64,001 (42.1)
2011	3,76,625 (35.3)	87,857 (36.1)	4,86,017 (33.5)
2012	3,96,343 (5.2)	1,10,514 (25.8)	5,28,617 (8.8)
2013	5,02,459 (26.8)	1,54,732 (40.0)	6,87,211 (30.0)
2014	6,20,139 (23.4)	2,00,840 (29.8)	8,50,469 (23.8)
31, March 2015	7,01,571 (13.1)	2,32,171 (15.6)	9,64,578 (13.4)
30, Sep 2015	6,66,931 (-4.94)	2,45,660 (5.81)	9,37,319 (-2.8)

Source: Annual Report of MSME

It is clear from Table 1 that the bank loan sanctions had increased from Rs. 20832.6 crores in 2000-01 to Rs. 36640 crores in 2010-11 and during the same period disbursements too had increased from Rs.17476.9 crores to Rs. 40684.4 crores reflecting the rapid industrial and business growth of the country on the one side, and the corresponding increase in the mobilization of resources by the development financial institution on the other.

6. Government schemes for development of SSI units

Small Industries Development Bank of India: The Small Industries Development Bank of India, a wholly-owned subsidiary of Industrial Development Bank of India, set up by an Act of Parliament, is the principal financial institution for the promotion, financing and development of industry in the small, tiny and cottage sectors and for coordinating the functions of the institutions engaged in similar activities. The outstanding portfolio and activities of IDBI pertaining to the small-scale sector and has emerged, over the years as the main purveyor of credit to small, tiny and cottage sector. The SIDBI discounts and rediscounts bills arising from the sale of machinery or manufactured by, industrial concerns in the small-scale sector. It also provides seed capital/soft loan assistance under national equity fund, Mahila Udyam Nidhi and seed capital schemes through specified lending agencies. The financial assistance of the SIDBI to the small scale units scattered through out the country is channeled through the existing credit delivery mechanism comprising of state financial corporations, commercial banks, co-operative banks and regional rural banks which have a vast network of branches in the country.

Industrial Finance Corporation of India Limited: The Industrial Finance Corporation of India Limited, the first development finance institution set up in 1948 and since July1, 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 offers financial services through its facilities for equipment procurement, equipment leasing and finance to leasing and hire-purchase companies. It provides merchant banking. The IFCI has started new promotional schemes, such as interest subsidy schemes for women entrepreneurs; consultancy fee subsidy schemes for providing marketing assistance to small-scale industry; and encouraging the modernization of tiny, small-scale industries. The IFCI has taken in the development of backward districts, throughout the country.

Industrial Investment Bank of India: In August 1984, the Government of India passed an Act converting the Industrial Reconstruction Corporation of India. It is Industrial Reconstruction Bank of India; the IRBI was established in March 1985 to take over the IRCI. The IRBI was to function as the principal all India credit and reconstruction agency for industrial revival, assisting and promoting industrial development and rehabilitating industrial concerns.

State Financial Corporations: The Central Government passed in 1951 the State Financial Corporation Act along the lines of the IFC Act provide at the state level long-term finance to medium and small scale industries. This is of course a permissive legislation enabling each state government to set up its own state financial corporations. Industrial Finance Corporation of India was set up in 1948 to cater to the needs of large industrial concerns. After its introduction in August 1952, the first corporation was registered in Punjab in February 1953. They can render financial assistance only to limited companies and co-operative societies. The main function of SFCs is to provide finance by way of term loans, direct subscriptions to equity, debenture, seed capital and discounting of bills of exchange the functioning of these state level financial institutions are beset with problems on account of political interference, non-performing loans and inefficient huge non-performing assets putting their efficient management in jeopardy. The SFCs Amendment Act (2000) becomes effective from September 2000 to improve functioning of SFCs. The amended Act infuses greater flexibility to cope with the challenges post by the deregulated financial systems.

Commercial banks: Until the 1970's conventional Development Finance Corporations were considered as main vehicles for channeling loan funds to small industries. But these institutions were found to be too centralized, the access to finance on a widely dispersed basis from commercial banks, with their vast network of branches, naturally emerged as an important alternate institutional source of SSI financing. The commercial banks are able to attract local savings and respond quickly to the demand of the SSI units by offering greater variety of services. However, with the strengthening of capital base of development financial institution by the government, commercial banks started referring long-term loans to them and remained content in financing working capital needs. For a long period, commercial banks did not come forward to extend financial assistance to the small-scale industries because of the SSIs weak economic base. The first lead in this regard was taken by the State Bank of India, in consultation with the Reserve Bank of India in March 1956 by setting up a pilot scheme for the provision of credit for small-scale industries. In the beginning, the scheme was confined to 9 branches of the SBI, which was later extended to all the branches of the SBI. The commercial banks started taking initiation in financing SSIs in a greater way only after the bank nationalization in July 1969.

7. Challenges faced by MSMEs

Despite its commendable contribution to the nation's economy, MSME sector does not get the required support from the concerned government departments, banks, and financial institutions and corporate, which is a handicap in becoming more competitive in the national and international markets. MSMEs face a number of problems:

- Absence of adequate and timely banking finance.
- Limited capital and knowledge.

- Non-availability of suitable technology.
- Low production capacity.
- Ineffective marketing strategy.
- Identification of new markets.
- Constraints on modernization and expansions.
- Non availability of highly skilled labour at affordable cost.
- Follow-up with various government agencies to resolve problems

8. Suggestions

- The banks may have specialized branches in each district to the loan requirements of the small-scale industries.
- Adequate delegation of power at the branch level may be given so as to avoid several layers of hierarchy in granting loans to SSI units.
- The regular repayment of loans by SSI units may be rewarded by the banks with increase in the loan amount and reduction in the rate of interest for further loans.
- The commercial banks may also sanction loans even to unregistered small units on the basis of the viability of the project.

9. Conclusion

The governments both central and state–have setup several institutions and centers to support small scale industries. Their functions include project appraisals, construction of infrastructure facilities, distribution of raw materials, provision for machinery on hire purchase scheme, reservation of items for production by small scale industries, and the like. A number of financial institutions offer different schemes to relieve the financial burden of the small scale industries.

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