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CONTRIBUTION OF FINANCIAL INSTITUTIONS TO SMALL SCALE INDUSTRIES IN ECONOMIC DEVELOPMENT OF INDIA

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ABSTRACT

India is an ancient nation of rich cultural heritage and a home of the different religion with a vast diversity in tradition and language. In India GDPs major portion has been contributed through industrial and service sector, with the change in time and aspect the working community had moved from agricultural to small scale industrial sector due to lack of irrigation facilities and dependency on the natural environment to a large extent which leads to failure in most of the times. Due to this paradigm shift from agricultural to industrial and service sector thus the position of Indian economy had improved a lot. But the story of success is not yet accomplished, as most of the venture has grown up in rural and semi-urban areas are facing inadequate infrastructural and financial problems. To eradicate these financial problem different financial institutions had performed a crucial role to stand as a backbone for these small scale industries which in turn leads to industrial development and ultimately the economic development of India through this financial support and activities. Small scale industries (SSIs) refer to those small entrepreneurs who are engaged in production, manufacturing or service at a micro scale. Small scale industries play a focal role in the economic and social development of India in the post-independence era. Small scale industries constitute the backbone of a developing economy with its effective, efficient, flexible and innovative entrepreneurial spirit. The contribution of SSIs to the Indian economy in terms of employment generation, reducing regional imbalances, promoting inter-sectorial linkages, magnifying exports and fostering equitable economic growth potential has been quite marvellous. This sector through more than 6000 products ranging from traditional to high-tech, consisting over 36 million units widely dispersed across the country provides employment to over 80 million persons, contributes about 8% to country's GDP besides accounting for 45% of manufactured output and 40% to the export from the country.[1] The paper attempts to discuss the role of small scale industries in the economic development of India and the role of financial institutions in the development of small scale industries.
KEYWORDS- SSIs, economic development, funding agencies

I. INTRODUCTION

India is an ancient nation of rich cultural heritage and a home of the different religion with a vast diversity in tradition and language. India is a land of farmers and agricultural sector is a primary business for most of the Indian families living in rural areas, these farmers depend on the natural resources for their cultivation a lot. But as nature is unpredictable difficulties arises in most of the cases and these farmers suffer a huge loss due to lack of irrigation facilities, modernized machinery, and farming equipment, etc. So the working population is moving on the second best alternative for their survival in small scale industries sector. Small scale industries (SSI) refer to those small entrepreneurs who are engaged in production, manufacturing or service at a micro scale. Small scale industries play a focal role in the economic and social development of India in the post-independence era. Small scale industries constitute the backbone of a developing economy with its effective, efficient, flexible and innovative entrepreneurial spirit. The contribution of SSIs to the Indian economy in terms of employment generation, reducing regional imbalances, promoting inter-sectorial linkages, magnifying exports and fostering equitable economic growth potential has been quite marvelous. The Indian economy during the current fiscal years has shown considerable growth performance by contributing to creating livelihood opportunities to millions of people, in magnifying the export potential and in increasing the overall economic growth of the country with the help of these small scale industries. As a catalyst to the socio-economic transformation of the country, the SSI sector distinctly crucial in addressing the national objective of bridging the rural-urban divide, mitigate poverty and generating employment for the admirable community of the country. SSI sector comprises almost about 80% of the total industrial units in the country. In India, SSIs occupy 36 million units, contribute to 45% of industrial production, 40% to the export sector through more than 6000 products ranging from traditional to high-tech and provides employment to about 80 million persons. In view of the vast potential of small scale industries, the government has given this sector an important place in the framework of Indian economic planning for economic as well as ideological reasons. The central government and state government had taken initiatives for promoting such types of small scale enterprises through their separate department such as Ministry of Micro, Small & Medium Enterprises. Ministry of Micro, Small & Medium Enterprises (MSME) envision a vibrant MSME sector by promoting growth and development of the MSME Sector, including Khadi, Village and Coir Industries, in cooperation with concerned Ministries/Departments, State Governments and other Stakeholders, through providing support to existing enterprises and encouraging creation of new enterprises. A wide variety of financial institutions have been set up at the national level to cater the diverse financial requirements of the small scale industries. Following are some important financial institution that perform vital role in business enrichment.

1. Industrial Development Bank of India (IDBI)
2. Industrial Finance Corporation of India Ltd (IFCI Ltd)
3. Small Industries Development Bank of India (SIDBI)
4. Industrial Investment Bank of India Ltd (IIBI)
5. State Financial Corporation's (SFCs)
6. Maharashtra State Financial Corporation (MSFC)
7. Export Import Bank of India
8. Industrial Credit and Investment Corporation of India (ICICI)

II. MEANING AND ROLE OF SMALL SCALE INDUSTRIES

A small scale industry is an industrial undertaking in which the investment under fixed assets in plant and machinery or equipment, whether held on ownership term or on lease or hire purchase, does not exceed ▯ 10 crore for manufacturing enterprise and ▯ 5 crore for service enterprise. However, the investment limit changes overtime as prescribed by the government.

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two classes:

1. Manufacturing Enterprises: The enterprises engaged in the manufacturing or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act 1951 or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in Plant and Machinery.

2. Service Enterprises: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment. [2]

Industrial units are generally classified as small, medium and large scale units considering their size, capital invested and the number of human resource employed. The concept of small business has been defined by different countries in different ways; however the definition changes over time.
The limit for investment in plant and machinery / equipment for manufacturing / service enterprises is shown in Table I.

Table I- Limit for investment in plant and machinery / equipment

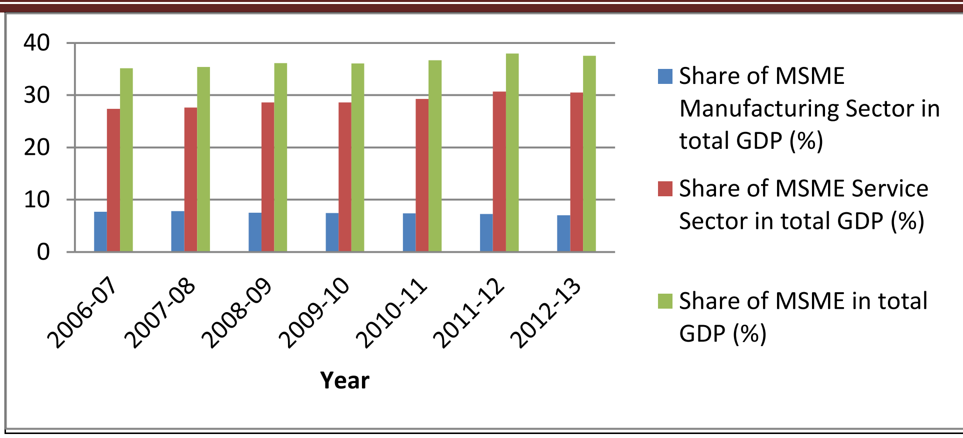
Enterprises	Investment in plant and machinery / equipment	
	Manufacturing Sector	Service Sector
Micro	< 25 lakh	< 10 lakh
Small	> 25 lakh but < 5 crore	> 10 lakh but < 2 crore
Medium	> 5 crore but < 10 crore	> 2 crore but < 5 crore

The small scale industries in India whether in manufacturing sector or service sector are split up into five parts:
1. Manufacturing industries: These units are producing merchantable articles for direct consumption and also for processing industries, example: khadi industries, food processing industries, power looms, etc.
2. Ancillary industries: The ancillary industries produce parts and components for large industries.
3. Service industries: Service industries are known for covering all light repairs shop that is essential to maintain mechanical equipment. These industries completely depend on machinery.
4. Feeder industries: These industries produce certain specialised products like electroplating, casting, welding, etc.
5. Mining or Quarries: These industries caters the demand of different types of stones and minerals of the Indian and foreign market.

Small scale industries are the second largest employer of human resource after the agricultural sector and produce a wide variety of products ranging from traditional to high-tech. SSI plays a pivotal role in the Indian economy as of being labour-intensive, helps to generate employment in rural as well as in urban areas. The SSIs had also played a cardinal role in the growth operation of Indian economy since independence despite of drastic competition from the big industrial houses and not immensely enriching support from the government. The following are some of the principal role played by small-scale industries in India.
1. Origination of employment
2. Equitable distribution of income
3. Assembling of resources and entrepreneurial skill
4. Regional dispersion of industries
5. Export enhancement
6. Supports the growth of large industries
7. Better relation between employer and employees

The percentage contribution of MSME manufacturing and MSME service sector in total Gross Domestic Product (GDP) at 2004-05 price during 2006-07 to 2012-13, is shown in Fig I :

Fig I - Contribution of MSME Sector in the Gross Domestic Product



Source: 1. Fourth All India Census of MSME 2006-07,
2. National Account Statistics (2014), CSO, MoSPI and
3. Annual Survey of Industries, CSO, MoSPI.

III. OBJECTIVE OF THE STUDY

1. To identify the role and contribution of small scale industry in GDP.
2. To identify the Performance of SSI / MSME Units, Employment, Investments and Gross output.
3. To Study the Contribution of Financial Funding agencies in Small Scale Industry/ MSME through several Schemes/ Packages and Products

IV. RESEARCH METHODOLOGY

The descriptive methodology has been used to collect the data, the data collected mostly from secondary sources from various journals, books, articles, government published annuals reports, website of different government agencies.

V. LITERATURE REVIEW

Srinivas K T, (2013) has studied the performance of micro, small and medium enterprises and their contribution in India's economic growth and concluded that MSMEs play a vital role in the inclusive growth of Indian economy.

Sumanjeet Singh and Minakshi Paliwal (2017) in "unleashing the growth potential of Indian MSME sector" had concluded that undoubtedly the MSME sector has huge potential for generating innovative entrepreneurship and massive employment but some problems confronting MSMEs are

- Lack of access to finance
- Lack of access to penetrate foreign market
- Lack of skilled manpower
- Lack of reliable and stable infrastructure
- Ineffective marketing network

Dr. Reetu Sharma (2012) in "problems and prospects of small scale industrial units (a case study of exporting and non-exporting units in Haryana) had concluded that SSI units are at a developing stage and more expansion is required but some problems need to be solved

- Underutilization of installed capacity
- The marketing activities to be strong for selling SSI manufactured products

Dr. Jignesh H. Gadesha Adhypak Sahayak (2012) in "Importance of Large Scale and Small Scale Industries in India" had expressed that cordial relationship between employer and employees reduce the possibilities of industrial disputes and increase the efficiency of employees. In small scale industries there is no strike or lockout due to the amiable relationship between employer and employees, which leads to nil loss of production and man-days.

Dr. Prakash M Tayde(2016) in "Contribution of financial institution in economic development through small scale industry" had concluded that performance of small scale industries is financed by the commercial bank and other financial institutions for their survival and growth. Capital as a key component of any business, these financial institution helps to bridge the gap between the rural alliances with the global world in setting up business through various financial schemes and packages.

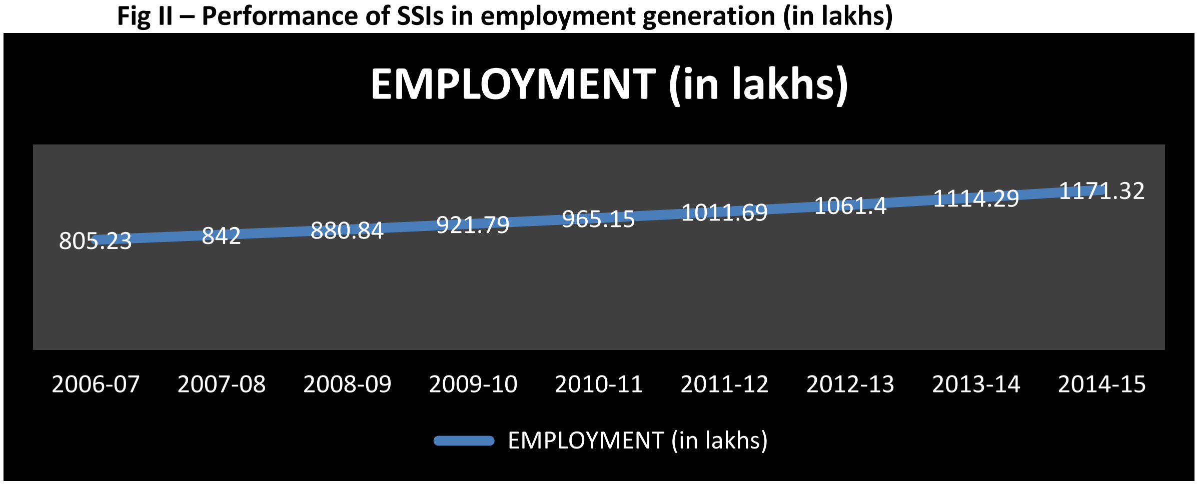
VI. PERFORMANCE OF SMALL SCALE INDUSTRIES

Small scale industries are the second largest employer of human resource after the agricultural sector and produce a wide variety of products ranging from traditional to high-tech. SSI plays a pivotal role in the Indian economy as of being labour-intensive, helps to generate employment in rural as well as in urban areas. The SSIs had also played a cardinal role in the growth operation of Indian economy since independence despite of drastic competition from the big industrial houses and not immensely enriching support from the government. The following are some of the principal role played by small-scale industries in India to the economic development

1. Origination of employment:

The elemental problem that is confronting the Indian economy is escalating pressure of population on land and needs to create enormous employment opportunities. This problem can be solved to a larger scale by the help of small-scale industries as small scale industries are labour intensive in nature and has shown an outstanding growth in the last decade. The employment generation by SSIs from 2006-07 to 2014-15 is shown in Fig II.

Fig II – Performance of SSIs in employment generation (in lakhs)



Source: Annual report, Government of India, Micro, Small and Medium Enterprises (2015-16)

2. Equitable distribution of income:

Small scale industries trigger the equitable distribution of wealth and income within societies in ways that are economically positive and without being politically turbulent, which is chiefly categorized by more concentration of income and wealth in the organised sector keeping behind the unorganised sector underdeveloped.

3. Assembling of resources and entrepreneurial skill:

Small scale industries can assemble an adequate amount of savings and entrepreneurial skill from semi-urban and rural areas remain unblemished from the clench of large scale industrial sector, also helps to improve the social welfare in the country by identifying hidden talents from the weaker section of the society and investing the intellectual skill for producing or manufacturing commodities. The investment by small scale industries had increased over the last decade.

4. Regional dispersion of industries:

There has been an enormous agglomeration of industries in few metropolitan cities of different states of India. People in search of employment migrate from semi-urban and rural to these developed metropolitan cities to earn a better standard of living which ultimately leads to malicious outcome of over-populated, pollution, creation of slums, etc. Small scale industries can overcome this problem of Indian economy by utilising local recourses in terms of raw material, investment, intellectual skill, etc, thus brings about dispersion of industries in various parts of the country and promote balance regional development.

5. Export enhancement:

Small scale industries have registered a magnificent growth in export over the years. The value of products exported by the SSIs has increased from 155 crores in 1971-72 to 124417 crores in 2004-05. The SSI units contributes about 40% of India's total export, thus this helps India in increasing the foreign exchange reserve and reduces the pressure on country's balance of payment.

The data has been collected from secondary sources comprising of micro, small and medium enterprises annual reports 2015-16 and Ministry of Commerce, Government of India from the period of 2006-07 to 2014-15. The collected data has been classified and analysed in a systematic manner. For analysis, statistical tools such as annul growth rates and compound annual growth rates (CAGR) have been used in the study.

CAGR = (EV / SV) 1 / n – 1

where:

EV = Investment's ending value

SV = Investment's starting value

n = Number of investment periods (months, years, etc.)

Table II- Performance of SSI units in India (2006-07 to 2014-15)

Year	No. of SSI units (in lakhs)	Yearly growth of Number of units (%)	No. of employment (in lakhs)	Yearly growth of employments (%)
2006-07	361.76	-	805.23	-
2007-08	377.36	4.31	842	4.56
2008-09	393.70	4.33	880.84	4.61
2009-10	410.80	4.34	921.79	4.65
2010-11	428.73	4.36	965.15	4.70
2011-12	447.64	4.41	1011.69	4.82
2012-13	467.54	4.45	1061.40	4.91
2013-14	488.46	4.47	1114.29	4.98
2014-15	510.57	4.53	1171.32	5.12

Computed annual average compound growth rate of the number of units in SSI sector- 3.90%
Computed annual average compound growth rate of employment- 4.25%
From the above table it can be easily analysed that the contribution of SSI units towards employment generation has increased from 805.23 lakhs in 2006-07 to 1171.32 lakhs in 2014-15 with a compounded annual average growth rate of 4.25%, considerable growth has been identified on the SSI units from 361.76 lakhs in 2006-07 to 510.57 lakhs in 2014-15 with a compounded annual average growth rate of 3.90%.

VI. FINANCIAL INSTITUTIONS CONTRIBUTION IN SMALL SCALE INDUSTRIES

For a successful setup, maintenance and progress of any SSI units several crucial inputs are essential for smooth functioning, the essential input, however, is the finance both for investment in fixed assets and for working capital. It is universally accepted that there is a need for easy access to credit, adequate and timely need based at a reasonable rate of interest. The financial institutions in India being consistently the major source of long term funds for the industrial sector; they provide a wide variety of financial products and services to fulfill various kinds of commercial activity. The industrial sector being small, medium or large get financial assistance to set-up and progress from this financial institution, even industries in backward areas being benefited from these institutions which help to reduce regional imbalances. The financial institutions can be classified into two parts national level and state level institutions, depending upon the geographical coverage of their operations. At the national level, they provide long and medium term loans at reasonable rates of interest. These financial institutions subscribe the debenture issues of companies; take part in underwriting the public issue of shares, guarantee loans, and deferred payments, etc. On the other hand, the State level institutions are mainly concerned with the development of medium and small scale enterprises, but they provide the same type of financial assistance as the national level institutions. A wide range of financial institutions has been set up at the national level with the initiatives of the union government to cater to the diverse financial requirements of the entrepreneurs. Following are some important financial institution that performs a vital role in business enrichment.
1. Industrial Development Bank of India (IDBI)
2. Industrial Finance Corporation of India Ltd (IFCI Ltd)
3. Small Industries Development Bank of India (SIDBI)
4. Industrial Investment Bank of India Ltd (IIBI)

5. State Financial Corporation's (SFCs)
6. Maharashtra State Financial Corporation (MSFC)
7. Export Import Bank of India
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The greatest potential of the commercial banking sector is in its relationship with Small and Medium sized Enterprises, where banks can be very influential through their lending practices and by providing information with the help of following schemes, Services & Packages through several Financial Funding Agency. The data collected from micro, small and medium enterprises annual reports 2015-16 on outstanding bank credit to micro and small enterprises are shown in Table-III.

Table III- Outstanding Bank Credit to Micro and Small Enterprises

(in Crores)

As on last reporting Friday of March	Public Sector Banks	Private Sector Banks	Foreign Banks	All Scheduled Commercial Banks
1	2	3	4	5
2005	67,800	8,592	6,907	83,498
2006	82,434 (21.6)	10,421 (21.3)	8,430 (22.1)	1,01,285 (21.3)
2007	1,02,550 (24.4)	13,136 (26.1)	11,637 (38.0)	1,27,323 (25.7)
2008	1,51,137 (47.4)	46,912 (257.1)	15,489 (33.1)	2,13,538 (67.7)
2009	1,91,408 (26.6)	46,656 (0.0)	18,063 (16.6)	2,56,127 (19.9)
2010	2,78,398 (45.4)	64,534 (38.3)	21,069 (16.6)	3,64,001 (42.1)
2011	3,76,625 (35.3)	87,857 (36.1)	21,535 (2.2)	4,86,017 (33.5)
2012	3,96,343 (5.2)	1,10,514 (25.8)	21,760 (1.1)	5,28,617 (8.8)
March 31, 2013	5,02,459 (26.8)	1,54,732 (40.0)	30,020 (37.9)	6,87,211 (30.0)
March 31, 2014	6,20,139 (23.4)	2,00,840 (29.8)	29,491 (-1.76)	8,50,469 (23.8)
March 31, 2015 (Provisional)	7,01,571 (13.1)	2,32,171 (15.6)	30,837 (4.6)	9,64,578 (13.4)
Sep 30, 2015 (Provisional)	6,66,931 (-4.94)	2,45,660 (5.81)	24,729 (-19.8)	9,37,319 (-2.8)

Source: Reserve Bank of India

Note: Figures in parentheses indicate year-on-year growth.

From the above table, it is clear that contribution of public sector banks on offering credit to micro and small enterprises is immense, as in 2005 it was 67,800 crores which increase to 7,01,571 crores in 2015. For analysis, statistical tools such as annual growth rates and compound annual growth rates (CAGR) have been used in the study.

CAGR = (EV / SV) 1 / n – 1
where:
EV = Investment's ending value
SV = Investment's starting value
n = Number of investment periods (months, years, etc.)
Computed annual average compound growth rate of credit by public sector bank- 26.32%
Computed annual average compound growth rate of credit by private sector bank- 39.05%
Computed annual average compound growth rate of credit by foreign bank- 16.14%

From the above analysis, it is cleared that not only public sector bank has an immense contribution towards the small and medium enterprises in providing credit, the contribution by private sector banks and foreign banks are also measurable. In Table IV a detailed figure is given showing the loan sanction and loan disbursement by major four financial institutions.

Table IV-Financial Assistance to Small-scale industries by financial institutions from 2000-2001 to 2010-2011 (In. Crores)

	IDBI		**SIDBI**		**IFCI**		**SFC**	
Year	Loan Sanctions	Loan Disbursements	Loan Sanctions	Loan Disbursements	Loan Sanctions	Loan Disbursements	Loan Sanctions	Loan Disbursements
2000-01	26832.6	17476.9	10820.6	6441.4	1766.5	2156.8	2012.0	1979.0
2001-02	15867.9	11012.5	9025.5	5919.3	777.6	1074.4	2210.2	1749.6
2002-03	5898.2	6614.9	10903.5	6789.4	1960.0	1779.9	1855.9	1454.0
2003-04	3937.7	4986.4	8246.3	4414.2	1391.6	278.0	1133.8	856.8
2004-05	10799.0	6183.3	9090.6	6187.8	-	91.0	1253.0	1100.0
2005-06	26490.0	12483.0	11974.8	9099.8	-	187.0	1372.2	1165.0
2006-07	19776	14533.0	11102.3	10225.4	1050.0	550.0	1491.9	1308.2
2007-08	27335.0	23250.0	16146.3	15099.3	2550.5	2280.0	1661.1	1483.2
2008-09	30335.0	25300.0	29216.7	28317.8	4015.0	3311.0	1881.3	1758.4
2009-10	32385.2	27350.2	35545.2	31941.9	7007.2	6045.4	1975.5	1823.4
2010-11	36640.0	29400.0	42223.3	38824.4	13208.5	8399.4	2094.7	1988.0

Sources: 1. The SIDBI Annual Report–Various Issues.
2. The IDBI Report on Development Banking in India.
3. The RBI Annual Report, 2010–2011
4. Economic Survey of the Government of India 2011.

With the help of above tables it can easily interpret the role and contribution of Financial Funding agency in promoting the business and enhancing the other activities of small scale industries, financial institution not only provide the finance to these units but also motivate them to take an opportunities of several packages and services offered by central and state government as a merchant bankers.

CONCLUSION

The furtherance and advancement of SSIs are essential for the development of Indian economy to achieve an impartial distribution of income and wealth, economic self-dependence, and economic sustainable developments. To boost the SSI sector so that it can take deserved a place in the growth mechanism of the Indian economy, it is essential to support MSMEs by educating them to make optimum utilization of inbuilt capacity to be successful both under human and economic activity. Capital as one of the key component of any sort of business activity, without adequate capital it makes a difficult path for achieving the ultimate objective of business and their set- up. Financial Institutions thus performs a pivotal role in rural alliance with the globalized world by supporting the rural population in small business set up through their several schemes and packages. In the last decade, financial institution had contributed a lot in providing finance and by delivering expertise services to these small scale enterprises but a lot of work to be accomplished for better growth and prosperity. Here, it must be noted that Financial Institution Work on Front Desk of the society and try to diagnosis the problem of new potential entrepreneurs.

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