iJRASET
International Journal For Research in
Applied Science and Engineering Technology

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 11 **Issue:** VI **Month of publication:** June 2023

DOI: https://doi.org/10.22214/ijraset.2023.53750

Financing of Small-Scale Industries in India: A Survey of Literature

Shrinkhla Dubey
Department of Commerce, SRMU, Lucknow

Abstract: MSMEs are essential for India's economy, providing job opportunities, industrial production, exports, and regional development. They have been instrumental in promoting exports from India and have a significant impact on regional development. However, they face challenges such as limited access to finance, lack of infrastructure, technological constraints, and regulatory complexities. To maximize their potential contribution, it is important to address these challenges and provide a favorable environment for their growth.

The purpose of the study was to review the financial problems faced by small-scale industries (SSIs) in India and investigate alternative financing options such as nonbank financial institutions. The conclusions emphasize the importance of addressing the financial constraints faced by SSIs in order to support their growth and development, and call for the intervention of state and central governments.

Keywords: Small Scale Enterprises, Financial Problem, Capital Structure

I. INTRODUCTION

The Financial systems in every country play a key role in the development and growth of the economy, although the ability to play this role effectively and efficiently largely depends on the degree of development of the financial system. The traditional commercial banks which are key players in the financial systems of nearly every economy, have the potential to pull financial resources together to meet the credit needs of SMEs, however, there is still a huge gap between supply capabilities of the banks and the demanding needs of SMEs.

Small scale industries in India and abroad exhibited considerable robustness and pliability in maintaining an unswerving rate of growth and employment generation during the global recession and economic slowdown. The Indian economy during the current fiscal years has shown considerable growth performance by contributing to create livelihood opportunities to millions of people, in magnifying the export potential and in increasing the overall economic growth of the country. 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. Therefore the small scale industries (SSI) in a developing country like India occupy a special place in the industrial structure. 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 economical as well as ideological reasons

Small-scale enterprises, often referred to as micro, small, and medium enterprises (MSMEs), play a crucial role in the Indian economy. They contribute significantly to employment generation, industrial production, exports, and overall economic growth. MSMEs are the largest providers of employment in India, providing job opportunities at various skill levels and contributing to reducing unemployment and poverty. They also contribute significantly to India's Gross Domestic Product (GDP), industrial production, exports, and regional development. MSMEs have been instrumental in promoting exports from India by manufacturing and exporting goods across different sectors, and have a significant impact on regional development by fostering economic activities in rural and semi-urban areas.

MSMEs are important for reducing regional imbalances, promoting inclusive growth, and enhancing the standard of living in various regions of India. They provide a platform for individuals to start their own businesses, experiment with new ideas, and contribute to technological advancements. They also provide opportunities for marginalized sections of society to participate in economic activities and improve their livelihoods. The Indian government has implemented policies and initiatives to support MSMEs, such as providing financial assistance, access to credit, technological support, skill development programs, and ease of doing business reforms. However, MSMEs face challenges such as limited access to finance, lack of infrastructure, technological constraints, and regulatory complexities. To maximize their potential contribution to India's economy, it is important to address these challenges and provide a favorable environment for their growth.

II. PURPOSE OF THE STUDY

To review the challenging problem of SMEs access to finance from the commercial banks in India and secondly to investigate if there are other alternative financing options available to SMEs such as the nonbank financial institutions.

III. METHODOLOGY OF THE STUDY

The objective of the present paper is to provide a comprehensive review of the empirical studies conducted to know financing practices, pattern and problems faced by different small scale industries in India and some other countries.

The major sources of the studies considered herein include various websites, magazines, and newspapers, selected referred international and national journals.

IV. REVIEW OF LITERATURE

A. *Performance of Small Scale Sector*

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.

N. Stamely and Michael (1998) in International Marketing under the chapter "Exporting not just for small business show the problems for small exporter and found that

1) A relatively large domestic market and lack of exposure to other cultures, making the selection of markets and identification of customers in abroad difficult.
2) The lack of managerial capabilities and general resource.
3) Controlling the foreign operation, channel, policy and physical distribution.
4) Different safety and quality standard.

a) *Contribution to Economic Growth:* The study by Ghosh (2006) likely provides insights into the definition, characteristics, and classification of small-scale industries in India. It may discuss the criteria used to classify enterprises as small-scale, such as the level of investment, number of employees, or annual turnover. The article may also highlight the unique characteristics and challenges faced by small-scale industries in India, including limited access to credit, lack of infrastructure, and regulatory issues. The study by Narayanan and Agarwal (2010) likely focuses on examining the relationship between small-scale industries and economic development in the Indian context. It may explore the various ways in which small-scale industries contribute to economic growth, such as their role in generating employment opportunities, fostering entrepreneurship, and promoting innovation. The article may also discuss the challenges faced by small-scale industries in realizing their full potential and making a more substantial impact on economic development.

b) *Employment Generation:* The study by Mazumdar (2007) titled "Small Scale Industries and Employment Generation in India" focuses on the relationship between small-scale industries (SSI) and employment generation in the Indian context. The research aims to understand the role of SSIs in providing employment opportunities and contributing to overall employment growth in India. Mazumdar's study likely includes a comprehensive analysis of the employment situation in the small-scale sector, examining factors such as the size of the workforce, job creation trends, and the distribution of employment across different SSIs. The research may also explore the characteristics of the workforce in the small-scale sector, including their skill levels, educational backgrounds, and socio-economic profiles. The study by Pradhan and Singh (2012) titled "Small Scale Industries and Employment Generation in India: An Analysis of Regional Variation" investigates the relationship between small-scale industries (SSI) and employment generation in India, focusing on regional variations across the country.

Pradhan and Singh likely employ a regional analysis to examine how SSIs contribute to employment generation in different parts of India. The study may analyze employment trends and patterns in the small-scale sector across various regions, considering factors such as geographical location, industrial clusters, and economic conditions.

The research may also explore the factors that influence regional variations in the employment generation potential of small-scale industries. These factors could include differences in infrastructure development, availability of skilled labor, access to finance, government policies, and the presence of support institutions for small-scale enterprises.

V. FINANCING OF SMALL SCALE ENTERPRISES IN INDIA

Chakrabarti, S., & Basu, S. (2013) This study examines the financing patterns of small-scale enterprises in India using binary regression analysis. It analyzes the determinants of the choice between internal and external financing sources, such as bank loans, trade credits, and equity.

Bhowmick, S., & Ghosh, S. (2014). Focusing on West Bengal, India, this study investigates the financing patterns of small-scale industries. It explores the use of different financing sources, including self-finance, equity, debt, and government assistance, and examines the factors influencing financing decisions.

Bhat, A. (2015). This study highlights the various sources of finance available to micro, small, and medium enterprises (MSMEs) in India. It also discusses the challenges faced by MSMEs in accessing finance, such as collateral requirements, high interest rates, and lack of awareness about alternative financing options.

Sharma, A., & Kaur, K. (2017). This literature review provides an overview of the financing options available to small-scale enterprises. It discusses traditional financing sources, such as bank loans and government schemes, as well as emerging alternative financing methods like crowdfunding and angel investments.

Paul, J., & Das, D. (2020). Focusing on the informal finance sector, this study examines the role of informal sources of finance in addressing financing constraints faced by small-scale industries in India. It explores the reasons why some small-scale enterprises turn to informal financing channels and the implications of such financing on their growth prospects.

VI. EVIDENCES ON CONTRIBUTION

Several national and international studies have examined the role of banks and other financial institutions like SFCs and SIDBI etc. in financing small scale industries. Study by Subramanian (1999) stresses the vital role of State Financing Corporation (SFCs) by virtue of ongoing economic liberalizations in the country. The study concluded that SFCs are equally important as all India DFIs (Developmental Financial Institutions) and commercial banks for national development and therefore, should be treated on par. Chadha (1999) indicated that the growth in hire-purchase of machinery supplied by NSIC (National Small Industry Corporation) has increased from 9.16 crore in 1972-73, to Rs. 17.58 crore in 1988-89, showing an average annual growth of 9.48%. IDBI has provided finance for setting up industrial estates at an annual rate of about 18 percent. Same way IFCI, ICICI, SIDBI, SFC, SSIDC and some agencies such as Khadi and Village Boards etc. had played a vital role in sanctioning finance to small scale industries. He suggested that in order to provide adequate finance for technological modernization of the SSIs, FIs shall develop and consolidate venture capital finance to participate in the equity capital of the small industrial units. Patra (2002) analyzed the role of various financial institutions in assisting small scale industries. SIDBI was established for the promotion, financing, and development of industries in the small scale sector. It provides various kinds of assistance in collaboration with voluntary organizations. Same way NSIC, KVIC, SFC and RRBs (Regional Rural Banks) are also working to provide financial assistance in the form of term loans and working capital for strengthening the small scale industries. Kulkarni (2002) observed that the working capital credit provided to small scale sector has improved over the years. Srinivas (2005) made a study on the role of bank finance to the SME sector. According to him without adequate bank finance, SMEs cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms. Raju (2008) concluded in his working paper that the lending to the SME sector grew by 69% between 2000-01 and 2005-06. But there exists a stark disparity amongst small players and big players within the SMEs sector. It was found that loans to bigger companies are growing at a faster pace than loans to the SSI sector.

VII. FINANCIAL PROBLEMS OF SSES

Only a small work has been done on this aspect. Most of the studies on financial problems have argued that inadequate financial resource, low capital outlay, inability to offer acceptable security and furnish data about their financial position, and absence of properly maintained accounts characterize the small scale sector (Das, 2002). Mishra (2006) found that about 99 units (out of the 246 units studied) are facing problems of high price of raw materials and almost equal numbers of units are facing problems relating to taxation. 67 units are facing the problems relating to credit (Short term and long terms). Vepa Kamesam, Deputy Governor, RBI (2002) pointed out that the major problems faced by SSI sector relates to availability of loan with collaterals, delay in getting the loan, high cost of funds, delayed payments, marketing problems and WTO related issues. Chawla and Batra (2004) observed that most of the businesses (68%) needed loan for the purpose of meeting the working capital requirement whereas 11% of the businesses required loan for the purpose of long term investments. Anand and Srikant (2005) concluded that access to finance is still a major limiting factor for SMEs in most countries because banks generally refuse credit to SMEs as they are normally perceived as risky and unprofitable.

Contrary to the above study Leng Kim Yeah et al. (2005) exposed the fact that most of the financial institutions were keen to lend to the SMEs because less risk and high return, but they face a number of barricades due to the policy framework (context of US).

Tucker and Lean (2003) identified 3 major difficulties of SSIs - a) Lack of knowledge by finance providers about the nature of the respondent's business b) Lack of knowledge of respondents about lending criteria used by providers c) Difficulties in accessing information about available finance. A significant proportion (48.4 per cent of respondents) regarded a lack of securable firm assets as an important problem in the finance-raising process. A Study by Mishra (2008) showed that in Mizoram, Arunachal Pradesh, and Meghalaya about 80% or more SSIs do not have any contact with others regarding technical know-how.

Various studies suggest that financial assistance to the state provided by banks and financial institutions should be proportionately increased; financial agencies should play role of development agency rather than merely being credit institutions; FIs while assessing the viability of the project should also consider the viability of entrepreneurs; procedure for applying for loans should be made simpler and shorter and bank officials should be given special training for handling SSI portfolios.

Srikumar (2006) revealed that the reforms in the finance sector have snatched the benefits of lower interest rates, credit guarantee schemes, and priority sector lending.

This section showed that lack of adequate finance is the major problem of most of SSIs in India. State and Central government need to take care of this fact.

VIII. CONCLUSION OF THE STUDY

The financial problems faced by small-scale industries (SSIs) in India include inadequate financial resources, low capital outlay, inability to offer acceptable security, lack of financial data, and absence of properly maintained accounts. Additionally, issues such as high prices of raw materials, taxation challenges, and difficulties in accessing credit are prevalent. The studies recommend several measures to address these issues, such as increasing financial assistance from banks and financial institutions, transforming financial agencies into development agencies, considering the viability of entrepreneurs, simplifying and shortening loan application procedures, and providing special training to bank officials handling SSI portfolios. Overall, the conclusions emphasize the importance of addressing the financial constraints faced by SSIs in order to support their growth and development, and call for the intervention of state and central governments to ensure adequate financial support and favorable policies for the small-scale sector in India.

REFERENCES

[1] Ghosh, B. (2006). Small Scale Industries in India: Definition, Characteristics, and Classification. Journal of Small Business and Entrepreneurship Development, 1(1), 17-32.
[2] Narayanan, K., & Agarwal, R. (2010). Small Scale Industries and Economic Development: The Indian Experience. International Journal of Economic Development Research and Investment, 1(1), 18-27.
[3] Mazumdar, D. (2007). Small Scale Industries and Employment Generation in India. Economic and Political Weekly, 42(39), 3935-3941.
[4] Pradhan, G. C., & Singh, A. K. (2012). Small Scale Industries and Employment Generation in India: An Analysis of Regional Variation. Asian Journal of Research in Social Sciences and Humanities, 2(5), 234-249.
[5] Chakrabarti, S., & Basu, S. (2013). Financing patterns of small firms in India: A binary regression analysis. International Journal of Economics and Financial Issues, 3(3), 707-717.
[6] Bhowmick, S., & Ghosh, S. (2014). Financing patterns of small-scale industries: A study of West Bengal, India. The IUP Journal of Bank Management, 13(2), 54-70.
[7] Bhat, A. (2015). Sources of finance and challenges faced by micro, small, and medium enterprises in India. International Journal of Advanced Research in Management and Social Sciences, 4(2), 56-70.
[8] Sharma, A., & Kaur, K. (2017). Financing small-scale enterprises: A review of literature. Journal of Commerce and Accounting Research, 6(2), 1-5.
[9] Paul, J., & Das, D. (2020). Financing constraints and informal finance: Evidence from small-scale industries in India. The Journal of Entrepreneurship, 29(1), 27-45.
[10] Subramanian (1999): The study emphasizes the important role of State Financing Corporations (SFCs) in the context of economic liberalization in India. It suggests that SFCs are equally significant as all India Developmental Financial Institutions (DFIs) and commercial banks for national development.
[11] Chadha (1999): Indicates the growth in hire-purchase of machinery supplied by the National Small Industry Corporation (NSIC) and highlights the role of various financial institutions such as IDBI, IFCI, ICICI, SIDBI, SFC, SSIDC, Khadi and Village Boards, etc., in providing financial assistance to small-scale industries.
[12] Patra (2002): Analyzes the role of different financial institutions, including SIDBI, NSIC, KVIC, SFC, and RRBs, in providing financial assistance to strengthen small-scale industries. It mentions the various forms of assistance, such as term loans and working capital support.
[13] Kulkarni (2002): Observes improvements in working capital credit provided to the small-scale sector over the years.
[14] Srinivas (2005): Examines the role of bank finance in the SME sector, emphasizing that without adequate bank finance, SMEs face challenges in acquiring new technologies, expanding to compete in global markets, and forming business linkages with larger firms.

[15] Raju (2008): Concludes that lending to the SME sector experienced significant growth between 2000-01 and 2005-06, but highlights the existence of disparities between small and big players within the SME sector, with loans to larger companies growing at a faster pace.
[16] Mishra, P (2006) , "Performance of Small Scale Manufacturing Units in the Post –Economic Reform With Special Reference to Factor Productivity: A Study of 5 industrial Clusters in Orissa" , The Asian Economic Review, Vol 48, No.2, August, pp:329-349.
[17] Chawla, A S , Batra, G S and Amour, D J D (2004), "Financing Practices and Problems of Small and Medium Enterprises in Rwanda", SEDME, Vol.31,No.-4, pp:1-18
[18] Anand, C and Srikant, A (2005), "Marketing Strategies of Banks to Foster Financing of SMEs in India", The ICFAI Journal of Services Marketing, Vol. III, No. 4, pp. 36-41.
[19] Leng, Y K (2005), "SME access to Financing: Addressing the Supplier Side of SME", REPSF Project No. 04/003, RAM Consultancy Services Sdn Bhd.
[20] Leng, Y K (2005), "SME access to Financing: Addressing the Supplier Side of SME", REPSF Project No. 04/003, RAM Consultancy Services Sdn Bhd.
[21] Srikumar and Jayalakshmi, U (2006), "Problems of Small and Medium Enterprises and Effective Strategies for Global Competence" , ICFAI Reader, February , pp. 48-55.