

State of Financial Inclusion of Microenterprises: Missing Middle



**Study Conducted by M2i Consulting
Under MSME Umbrella Programme**

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MSME Knowledge Series
Missing Middle Enterprise Finance: Vol. 1

State of Financial Inclusion of Microenterprises
(Missing Middle)

Foreword

While micro, small and medium enterprises (MSME) are a major pillar of the Indian economy, the service environment often does not cater to their needs and thus hampers the growth potential of enterprises in this sector. Access to finance is still a major challenge, for MSMEs especially those in the unorganized sector. Businesses such as Manish Finishers, a Delhi based finishing company for textile exporters, suffer from a lack of capital and faces difficulty getting a loan due to a lack of collateral security. Micro enterprises such as these instead rely on funds from friends or relatives, expensive private financiers with interest rates varying between 36% - 200% p.a. or their own savings and private assets. Consequently, they are unable to make big investments such as purchasing modern machinery and equipment and to scale up their business.

To address this financing gap, in 2010, GIZ and Small Industries Development Bank (SIDBI) partnered to do a pilot project to demonstrate the scaling up of credit to microenterprises. The pilot targeted the informal sector by introducing an innovative financial product and delivery model for the upstream apparel supply chain, operating in the industrial areas of Govindpuri, Sangam Vihar and Tughlakabad Extension in Delhi. It successfully demonstrated that the availability of credit has enabled micro enterprises to improve their production capacities, as well as production efficiency. Many were able to utilize loans to increase their productive assets and to meet their working capital requirements. Consequently, they have been able to employ more skilled manpower and generated higher revenues and profits.

Encouraged by the results of this, GIZ and SIDBI now aim to bring micro enterprise financing to the next level, and are launching a joint initiative to disseminate the learning from this pilot to Regional Rural Banks, Urban Cooperative Banks and Non-banking Financial Institutions.

This knowledge series is an effort to bridge the existing knowledge gap of banks and other financial institutions with regard to micro-enterprise financing. We hope this information kit will give a boost to micro-enterprise (missing Middle enterprise) financing in India.



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Acronyms

| | |
|-----------|--|
| ANBC | Adjusted Net Bank Credit |
| BDS | Business Development Services |
| BOB | Bank of Baroda |
| BOI | Bank of India |
| CGTMSE | Credit Guarantee Fund Trust for Micro and Small Enterprises |
| CLCSS | Credit Linked Capital Subsidy Scheme |
| DFID | Department for International Development |
| FY | Financial Year |
| IBRD | International Bank of Reconstruction and Development (World Bank) |
| KYC | Know Your Customer |
| MFI | Microfinance institution |
| MSME | Micro, Small and Medium Enterprises |
| MSMED Act | Micro, Small and Medium Enterprises Development Act |
| MSMEFDP | Micro, Small and Medium Enterprise Financing and Development Project |
| NABARD | National Bank for Agriculture and Rural Development |
| NBC | Net Bank Credit |
| NBFC | Non-Banking Financial Company |
| NCEUS | National Commission for Enterprises in the Unorganised Sector |
| NSIC | National Small Industries Corporation (NSIC) |
| PNB | Punjab National Bank |
| PSB | Public Sector Bank |
| RRB | Regional Rural Bank |
| SBI | State Bank of India |
| SBLP | SHG-Bank Linkage Programme |
| SCB | Scheduled Commercial Bank |
| SFURTI | Scheme of Fund for Regeneration of Traditional Industries |
| SIDBI | Small Industries Development Bank of India |
| UCB | Urban Cooperative Bank |
| UBI | Union Bank of India |
| UK | United Kingdom |

1 Micro, Small and Medium Enterprise Financing and Development Project (MSMEFDP)

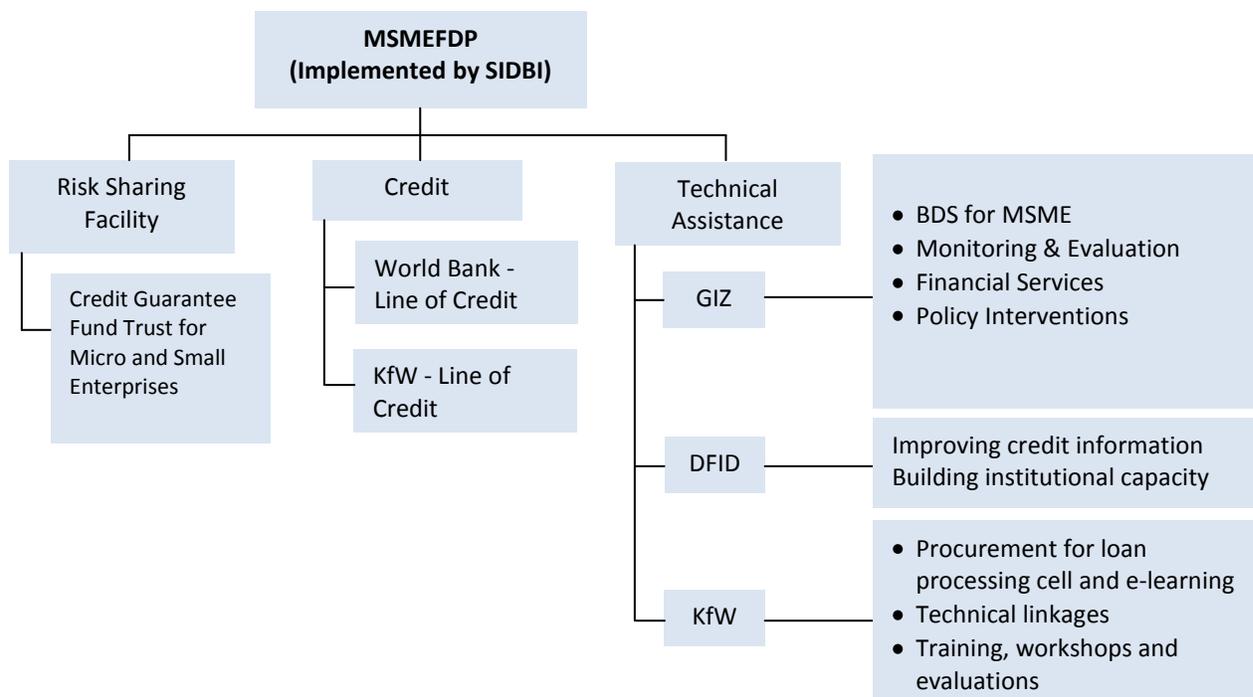
SIDBI is implementing a multi agency / multi activity Project on Financing and Development of Indian MSMEs. While SIDBI has been assigned with the responsibility of implementing the project, the Department of Financial Services, Ministry of Finance, Government of India is the nodal agency for the same. The IBRD, Department for International Development (DFID) UK, KfW Germany and GIZ Germany are the international partners in the Project.

The Project is aimed at making MSME lending an attractive and viable financing option and also to facilitate increased turnover and employment in the sector. In order to achieve its aims, the Project, besides upgrading direct flow of credit to MSMEs, addresses demand side issues of credit and streamlining access to qualitative financial and non-financial enterprise oriented services. This is being done with support of Technical Assistance to be utilised for strengthening the credit information system, credit rating, credit scoring, structuring of innovative products, capacity building of the participating banks, policy and regulatory issues and promotion of market oriented business development services for the sector. The Project has three major components:

- Credit facility from the IBRD and KfW, Germany
- A Risk Sharing Facility
- Technical Assistance from DFID, UK and GIZ, Germany

The chart below shows the overall structure of the project.

Chart 1: Structure of MSME-FDP



1.1 Credit Facility

Access to finance is a critical input for the promotion of the entire sector. MSMEFDP helps facilitate MSME growth for survival and sustainability by providing *Credit Facility*.

- The credit facility primarily addresses the financing needs of the MSMEs and enables them to access longer-term funds for their sustainable growth.
- The facility is being implemented by SIDBI and has been utilized for extending credit to existing and new MSMEs.
- The Project has been designed in such a way as to encourage MSMEs to adopt best international practices by following environmental and social standards. For instance, industries falling under the negative list of the World Bank are excluded from the purview of the Project.

The Project has implemented and utilized two Lines of Credit (LoC), one from World Bank for USD 120 million and other from KfW for Euro 43.5 million. Additional line of credit of USD 400 million from World Bank is being utilized.

1.2 Risk Sharing Facility

An important objective of the Project is to encourage banks to augment higher credit flow to MSME Sector. For this, the Project has developed financial mechanisms named Risk Sharing Facility under which the credit risk is shared on a *pari passu* basis between Guaranteeing entity and Member Lending Institutions (MLIs). By sharing the credit risk, the RSF helps them build up a track record of lending, giving them the much-needed confidence and encouragement to scale-up lending to MSMEs, and to price these loans more appropriately, with sector-wide demonstration effects.

The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) has been instrumental in implementing the pilot Project. It has signed MOUs with eight Member Lending Institutions (SIDBI, UBI, BOB, BOI, PNB, Canara Bank, United Bank, SBI).

1.3 Technical Assistance

This component of the project is oriented towards capacity building of banks/ FIs on one hand, and MSME borrowers on the other, by way of various trainings and by addressing policy, regulatory, and institutional constraints to further the efficiency of the MSME credit markets.

The Technical Assistance component is being supported by:

- DFID UK – GBP 20 Million
- GIZ Germany – EURO 5 Million (in Kind) in I phase, II phase being tied up
- KfW Germany – EURO 1 Million

2 Micro, Small Medium Enterprises in India: *an overview*¹

The micro, small and medium enterprises (MSMEs) sector contributes significantly to the manufacturing output, employment and exports of the country. It is estimated that in terms of value, the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The contribution of MSME to total GDP has been steadily rising. The table below shows the significance of MSME to the economy.

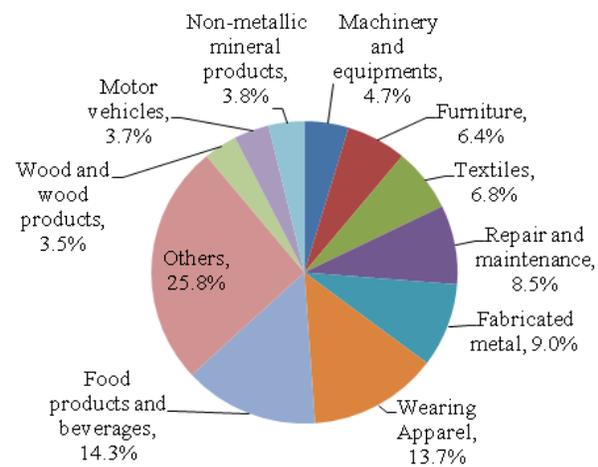
Table 1: Contribution of MSME

| Contribution of MSME to.. | | |
|---------------------------|-----------------------|-------|
| | Industrial Production | GDP |
| 2005-06 | 38.60% | 5.80% |
| 2006-07 | 45.60% | 7.20% |
| 2007-08 | 45.20% | 8.00% |
| 2008-09 | 44.90% | 8.72% |

Source: MSME Annual Report 2011-12

The sector is estimated to employ around 60.0 million individuals in over 26.1 million enterprises throughout the country. There are over 6,000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. The chart shows the distribution of key sub-sectors in MSME.

Chart 2: Distribution of MSMEs



Source: MSME Annual Report 2011-12

The state wise distribution of registered MSMEs shows that 60% of the total registered MSMEs are in 5 states viz. Tamil Nadu, Gujarat, Uttar Pradesh, Kerala and Karnataka.

Recognizing the contribution and potential of MSME sector, the definitions and coverage of the MSE sector were broadened significantly under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 which recognized the concept of "*enterprise*" to include both manufacturing and services sector besides, defining the "*medium*" enterprises.

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is as under:

¹ Data Source for the section: MSME Annual Report 2011-12 and Report on Prime Minister Taskforce on MSME

(a) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

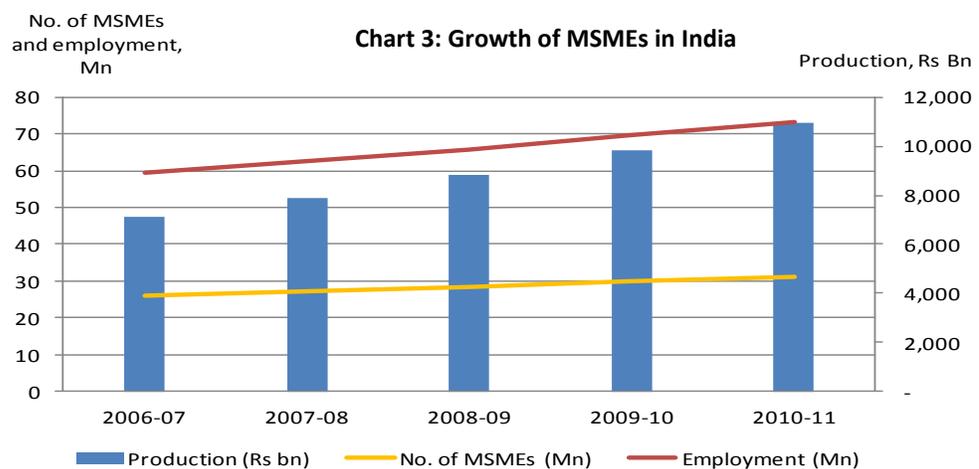
- (i) A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs 2.5 million;
- (ii) A small enterprise is an enterprise where the investment in plant and machinery is more than Rs 2.5 million but does not exceed Rs 50million; and
- (iii) A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs 50 million but does not exceed Rs 100 million.

(b) Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below.

- (i) A micro enterprise is an enterprise where the investment in equipment does not exceed Rs 1 million;
- (ii) A small enterprise is an enterprise where the investment in equipment is more than Rs 1 million but does not exceed Rs 20 million; and
- (iii) A medium enterprise is an enterprise where the investment in equipment is more than Rs 20 million but does not exceed Rs 50 million.

The MSME sector has registered a consistent growth, much higher than the industrial sector. The growth trend of the sector is depicted in the chart below.

Despite the significance of MSME and the growth in the sector, MSME is still largely unorganized.



Around 94% of the 26.1 million enterprises are unregistered. The following table presents the distribution of MSMEs.

| Table 2: No. of MSMEs (millions) | | | | | | |
|----------------------------------|-------------|--------------|--------------|-------------------------------------|--------------------------------------|--------------------------------|
| | Registered | Unregistered | Total | Registered (% of total MSMEs) | Unregistered (% of total MSME) | Total (% of total MSMEs) |
| Manufacturing | 1.05 | 6.42 | 7.47 | 4.0% | 24.6% | 28.6% |
| Services | 0.52 | 18.13 | 18.65 | 2.0% | 69.4% | 71.4% |
| Total | 1.56 | 24.55 | 26.11 | 6.0% | 94.0% | 100.0% |
| Perennial enterprises | 1.51 | 23.52 | 25.04 | | | |

Source: MSME Annual Report 2011-12

In terms of employment too, the unregistered enterprises provide for slightly over 84% of the total employment attributed to MSMEs.

| Table 3: Employment in MSMEs (millions) | | | | | | |
|---|-------------|--------------|--------------|-------------------------------------|--------------------------------------|--------------------------------|
| | Registered | Unregistered | Total | Registered (% of total MSMEs) | Unregistered (% of total MSME) | Total (% of total MSMEs) |
| Manufacturing | 8.08 | 22.42 | 30.51 | 13.60% | 37.60% | 51.20% |
| Services | 1.23 | 27.84 | 29.06 | 2.10% | 46.70% | 48.80% |
| Total | 9.31 | 50.26 | 59.57 | 15.60% | 84.40% | 100.00% |

The two tables above provide us the following insights:

1. The average employment per unit among the unregistered enterprises was 2.05 persons – with the average being 3.5 for the manufacturing enterprises and 1.5 for those in the services sector
2. The average employment per unit among the registered enterprises was 6.0 persons – with the average being 7.7 for the manufacturing enterprises and 2.4 for those in the services sector

While 26.1 million enterprises have been estimated by fourth All India Survey of MSMEs; the National Commission for Enterprises in the Unorganised Sector (NCEUS) estimates that there are a total of 58 million enterprises in unorganized sector employing around 104 million persons. It defines unorganized sector as an enterprise employing less than 10 workers. Of the 104 million persons, more than half are classified as 'self-employed' who are engaged in non-farm activities. NCEUS was constituted in 2004 and its estimate of number of microenterprises is of around 2006-07. But NCEUS had projected number of microenterprises for the end of March 2012 to be around 70 million.

2.1 Barriers to MSME growth

The MSME sector faces several barriers to their growth and to realizing their full potential. These key barriers of the sector have been highlighted in the report of Prime Minister Taskforce on MSME, 2010, these include:

- Lack of availability of adequate and timely credit
- High cost of credit
- Collateral requirements
- Limited access to equity capital
- Problems in supply to government departments and agencies
- Procurement of raw materials at a competitive cost
- Problems of storage, designing, packaging and product display
- Lack of access to global markets
- Inadequate infrastructure facilities, including power, water, roads, etc.
- Low technology levels and lack of access to modern technology
- Lack of skilled manpower for manufacturing, services, marketing, etc.
- Multiplicity of labour laws and complicated procedures associated with compliance of such laws
- Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily
- Issues relating to taxation

While the above list provides key barriers for MSME growth in general, these constraints play out more severely for microenterprises, particularly access to finance.

2.2 Characteristics of the microenterprises

In order to understand the constraints faced by microenterprises particularly related to financing, it is first necessary to understand the key characteristics of microenterprise units, these are discussed below:

- Microenterprise units are very small. Large proportions of them operate out of houses or small rented premises
- Most of the units are unregistered and are unorganized
- Most of the units do not have bank account. Usually owner of the enterprise has bank account in his/her name
- Financial transactions are primarily in cash
- Most of the units do not maintain any formal accounts so ascertaining their financial performance is difficult
- Units have low level of mechanization and often use obsolete technologies
- Most of the units are vulnerable to even minor income shocks
- Most of the units prefer to avoid registration and other regulatory compliances to avoid compliance related costs, taxes and scrutiny attached to compliances

- Most units have poor working conditions for labour, lack social security for labour and may also involve child labour

Thus, we see the typical characteristics of microenterprises in India. Having seen these characteristics, it is now much easier to appreciate the constraints to financing them. In coming sections we will see the existing status of financing to MSMEs with focus on microenterprises and the credit gap in MSMEs in detail.

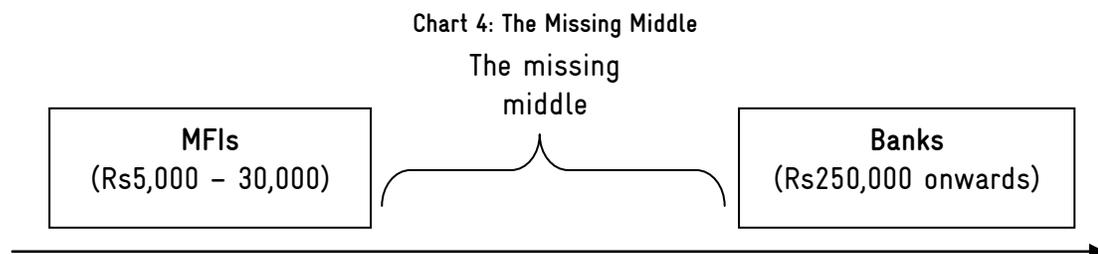
3 Status of financing to microenterprises

There are number of financial and non-financial constraints plaguing the MSME sector. However, financial exclusion that too of the microenterprises in particular, is the most critical one. It is also the focus of this Knowledge Series.

Access to capital for MSMEs is indeed severely constrained which has been recognized even by the Prime Minister Taskforce on MSME. However, this constraint is particularly acute for the microenterprises. Having understood the key characteristics of typical microenterprises in the previous section, it is now much easier for us to appreciate the financial constraints that such units face.

3.1 Constraints to microenterprise financing: *the missing middle*

The financial requirements of microenterprises usually range from Rs30,000 to around Rs250,000. This range of financial requirement is such that on one hand the banks often find it difficult to provide credit of such small amounts and on the other hand this amount is too large for microfinance institutions, as they typically deal in loans below Rs30,000. Thus, this segment of microenterprises gets completely excluded from the financial services both – from the banks as well as from the MFIs. Thus the financial gap to this segment has been termed as the *missing middle*.



MFIs are a significant credit provider to very small unorganized enterprises, many of which are home based enterprises. However, the current guidelines issued by RBI does not allow MFIs to lend more than Rs50,000 to an individual under 'qualifying assets' and the proportion for 'qualifying assets' have to be 85% of the gross loan outstanding of the MFI. This severely restricts MFIs' role in microenterprise financing.

Even aside the regulatory issues, MFIs themselves have not been dealing in this segment as MFIs do not offer loans exceeding Rs50,000 and in fact most of their loans are under Rs30,000. These loans are co-guaranteed jointly by the group members and are not secured by any physical collateral. The MFIs do not have the kind products, processes, appraisal systems and staff expertise to deal in microenterprise financing.

On the other hand, financing this segment through banks has its own constraints. Banks have concerns regarding lending to microenterprises particularly those falling in the *missing middle* range on account of:

- Small amount of credit requirement per unit which is not financially attractive for banks
- Lack of credit information with these units
- Inability to fulfill KYC requirements
- Inability to offer collateral
- Lack of formal accounting records
- Lack of formal registrations
- Difficulty in ascertaining cash flows and profits
- Key-man risk

It is on account of these issues that banks typically refrain from venturing into the segment. Further, micro entrepreneurs also often self-exclude themselves on account of the following reasons:

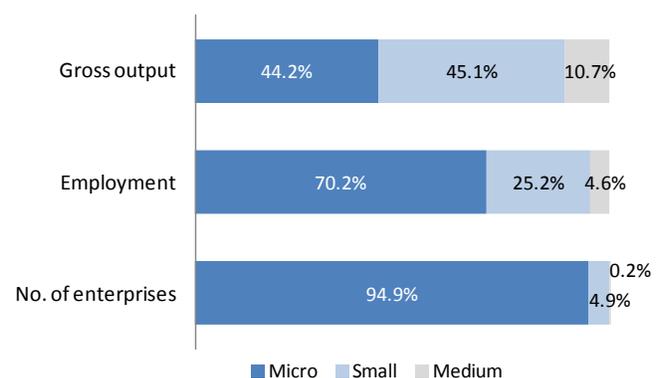
- Perception that banks only finance big businesses
- Perception that banks will have long and complicated due diligence process and
- Entrepreneurs' discomfort in revealing business details particularly financial details to avoid tax and other regulatory implications

The problem of lack of access to finance to microenterprises is big in magnitude because the absolute size of 'microenterprise' segment within MSME is quite big. NCEUS had projected number of unorganized enterprise units to be around 70 million by the end March 2012. One can note here that although the NCEUS definition of 'unorganized unit' is not same as that of 'microenterprises' but one can safely assume these unorganized units to be microenterprises. The unorganized units have been defined as those employing less than 10 workers; thus such units, as per 'microenterprise' definition in all likelihoods will not be having the investment on plant and machinery exceeding Rs 2.5 million in manufacturing sector and Rs 1 million in service sector.

Even if we see the data of fourth All India Survey of MSME, microenterprise is clearly the most dominant segment of MSME in terms of number of units, employment generated and even in gross output produced.

It is precisely because of the various constraints in financing microenterprises, that were discussed above, that while the quantum of advances from the public

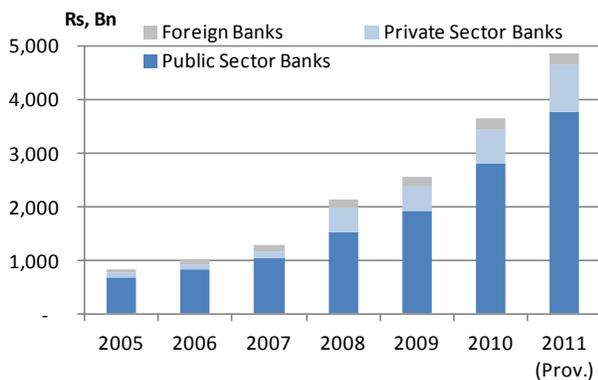
Chart 5: Share of each segment (registered sector)



sector banks (PSBs) to the micro and small enterprises increased over the years in absolute terms, its share in the Net Bank Credit (NBC) declined from 12.5 per cent in 2000 to 10.9 per cent in 2009 (Source: PM Taskforce Report on MSME).

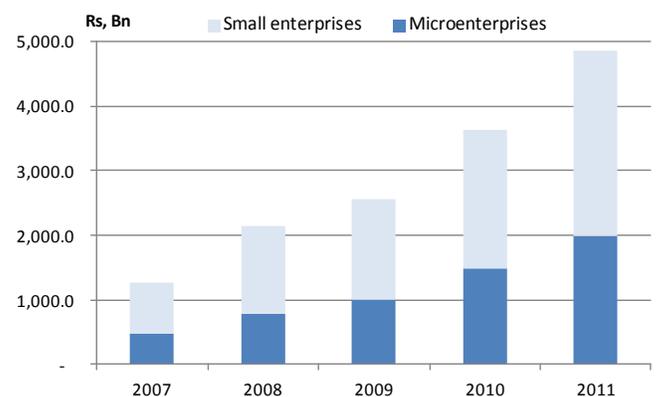
However after 2009, the government has given high focus to MSMEs with setting up of Prime Minister Taskforce and RBI has also issued fresh guidelines on priority sector lending to banks to facilitate greater flow of credit to MSMEs. This has certainly increased the flow of funds to the micro and small enterprises. The loan outstanding of all scheduled commercial banks (SCBs) to the micro and small enterprises almost doubled from 2009 to 2011. Public Sector Banks (PSB) remain the most dominant lenders to the sector with over 75% of all loans of SCBs to micro and small enterprises coming from the PSBs.

Chart 6: Outstanding Bank Credit to Micro and Small Enterprises



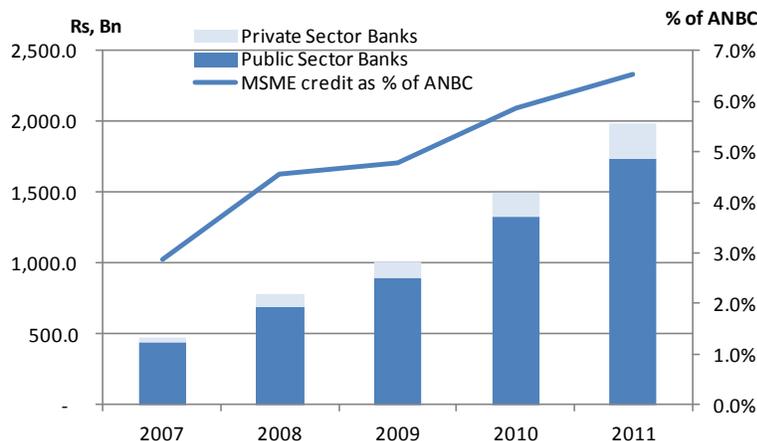
Source: RBI (taken from MSME Annual Report 2012)
 *Outstanding credit to medium enterprises in 2011 was Rs1,580.7 Bn, thus total O/s of all SCBs in MSME as of end of March 2011 was Rs6,440.1 Bn

Chart 7: Breakup of outstanding loans of SCBs to small and micro enterprises



Source: RBI

Chart 8: Outstanding credit to microenterprises and its share in ANBC



In chart 7 one can see that while the lending to both small and microenterprises has grown by similar proportion (~100%) between 2009 and 2011 but for small enterprises this growth happened on a bigger base. Thus, in absolute terms more funds are flowing to small enterprises than to microenterprises.

Specifically for microenterprises also, the dominant lenders are the public sectors banks. What is heartening is that the share of microenterprise lending in the total Adjusted Net Bank Credit (ANBC) of banks has been gradually increasing, this is certainly the impact of RBI's priority sector guidelines after increased focus of government on MSMEs.

4 Credit gap in MSME

There is no doubt that the government has stepped up the efforts towards greater credit flow to MSMEs in general and microenterprises in particular. Despite these efforts the shortage of capital particularly working capital still remains a challenge. The MSME Annual Report shows that still over 92% of the enterprises in MSME space have no access to finance.

| Table 4: Access to finance | | |
|---|-------------------------|----------------|
| Enterprises by type of organization | No. of enterprises (mn) | % distribution |
| No finance/Self-finance | 24.2 | 92.74% |
| Finance through institutional sources | 1.4 | 5.16% |
| Finance through non-institutional sources | 0.5 | 2.05% |
| Finance through both | 0.01 | 0.05% |
| Total | 26.1 | 100.0% |

Source: MSME Annual Report 2011-12

4.1 Credit demand and supply estimations for MSME

NCEUS estimation

In order to appreciate the enormity of financial exclusion in microenterprises we need to understand the current demand and supply of credit and the existing financial gap. At present, there is no big study available for the estimation of credit gap for the MSME sector (Source: Working Group of the Sub-committee of Private Sector of Planning Commission). However, the National Commission on Enterprises in the Unorganised Sector (NCEUS) had estimated the credit gap for the micro enterprises at 73% of the total demand as at end of March 2012–the terminal year of the 11th Five Year Plan. This was based on their estimation of number of such unorganized microenterprises to be at 70 million with an average credit off take of Rs123,000 per enterprise, thus total credit demand for microenterprises comes to Rs8.61 trillion. Considering the credit gap of 73% of demand, the total gap in financing to microenterprises as estimated by NCEUS comes to Rs6.3 trillion. Thus, we get some sense of the enormity of the credit gap that currently exists for microenterprises.

We can even compare this with the total outstanding of banks to MSME, which in March 2012 was around Rs5.2 trillion. Even if 30% of this loan outstanding is into microenterprises then the outstanding loan of banks to microenterprises will still be only around Rs1.56 trillion.

Estimation through MSME survey results

The demand estimation of NCEUS is however in contrast to the MSME sector, which is estimated to have 32.2 million enterprises by March 2012. Based on the scheduled commercial banks data, the average credit off take for MSME was Rs716,000 at the end of March, 2012. Thus, with these figures the total credit demand for the sector comes to Rs23.1 trillion compared to a supply of only around Rs5.2 trillion in March 2012, thus credit gap in total MSME comes to around 77% of the demand.

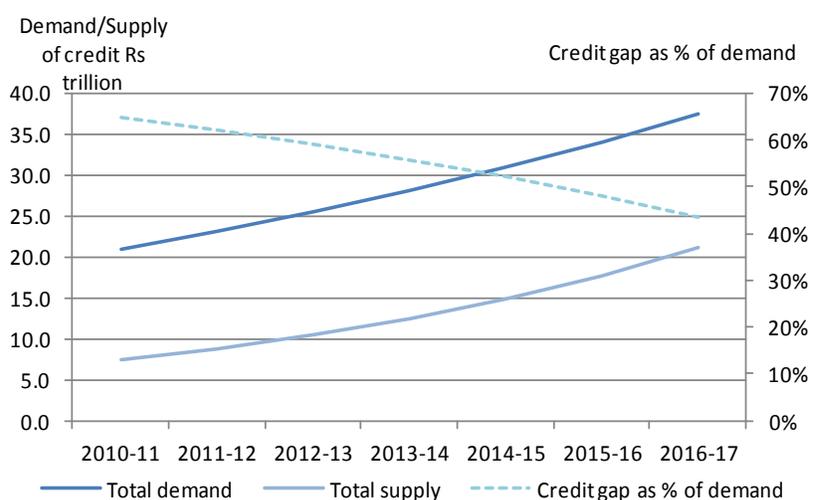
Estimation by Planning Commission for 12th Five Year Plan

Since, there was no single big report on demand–supply estimation of credit for MSME, the Sub Group of Planning Commission on MSME has made its own estimation of demand and supply of credit to MSME through different methods. It has projected the trend of demand and supply of finance to MSME for the entire 12th five year period of April 2012 – March 2017 through regression analysis using different methods and assumptions. It has also done a scenario analysis taking different growth prospects. The Sub Group has projected the trend of demand and supply both for working capital and term loan for capital expenditures.

Based on this analysis and taking cue from existing literature, the Sub Group of Planning Commission estimates the outstanding credit gap for the MSME sector at 62% of the credit demand at the beginning of the 12th FY plan (i.e. April 2012). This gap is estimated to reduce to 43% of the demand by March 2017 with the two assumptions of minimum 20% year-on-year credit growth to MSME sector and 10% year-on-year credit growth to medium enterprises by Scheduled Commercial Banks (SCBs).

Further, the Sub Group presents different scenarios wherein, if SCBs are directed to maintain minimum 22% in their outstanding credit growth to MSE sector and Medium Enterprises during the first two years of the 12th Five Year Plan (i.e. FY 2012–13 and FY 2013–14) and further minimum 25% during the remaining three years of the 12th Five Year Plan (i.e. FY 2014–15, FY 2015–16 and

Chart 9: Credit Gap trend in MSME as per Sub-Group of Planning Commission



FY 2016-17), the MSME credit gap will further reduce to 32% by the terminal year of 12th Five Year Plan.

The exact estimation of working capital loans and term loans for capital expenses as projected by the Sub Group is presented in the table below.

| | Total Credit demand by MSMEs | | | Projected supply of credit flow to MSME sector | | | Credit Gap | |
|--------------|------------------------------|-------------|--------------|--|-------------|--------------|----------------|---------------------------|
| | Working Capital | Term Loan | Total demand | Working capital | Term loan | Total supply | Absolute terms | Credit gap as % of demand |
| 2010-11 | 14.6 | 6.3 | 20.9 | 5.0 | 2.3 | 7.4 | 13.6 | 65% |
| 2011-12 | 16.2 | 6.9 | 23.1 | 6.0 | 2.7 | 8.7 | 14.3 | 62% |
| 2012-13 | 17.8 | 7.6 | 25.4 | 7.2 | 3.2 | 10.4 | 15.0 | 59% |
| 2013-14 | 19.6 | 8.4 | 28.0 | 8.6 | 3.8 | 12.4 | 15.7 | 56% |
| 2014-15 | 21.6 | 9.3 | 30.9 | 10.3 | 4.5 | 14.8 | 16.1 | 52% |
| 2015-16 | 23.8 | 10.2 | 34.1 | 12.4 | 5.3 | 17.7 | 16.4 | 48% |
| 2016-17 | 26.3 | 11.3 | 37.6 | 14.9 | 6.3 | 21.2 | 16.3 | 43% |
| Total | 140.0 | 60.0 | 200.0 | 64.4 | 28.2 | 92.6 | 107.4 | 54% |

From the above table if we assume that 40% of the working capital demand and 20% of the term loan demand would be from the microenterprise segment then the total credit demand for the microenterprise alone comes as under:

| | Working Capital | Term Loan | Total demand |
|--------------|-----------------|-------------|--------------|
| 2010-11 | 5.8 | 1.3 | 7.1 |
| 2011-12 | 6.5 | 1.4 | 7.9 |
| 2012-13 | 7.1 | 1.5 | 8.6 |
| 2013-14 | 7.8 | 1.7 | 9.5 |
| 2014-15 | 8.6 | 1.9 | 10.5 |
| 2015-16 | 9.5 | 2.0 | 11.6 |
| 2016-17 | 10.5 | 2.3 | 12.8 |
| Total | 56.0 | 12.0 | 68.0 |

Thus, we see that for 2012 the total credit demand for credit just for microenterprises is coming around Rs 7.9 trillion which is more or less matching with the demand estimated by NCEUS of Rs8.6 trillion taking assumption of 70 million units and average credit requirement of

Rs123,000 per unit. While supply of credit from banks to microenterprises is only around Rs1.5 trillion. (30% of the total loan outstanding to MSME of 5.2 trillion).

4.2 Suppliers of credit

Banks and Development Finance Institutions

MSME sector requires long term fund for capital investments and working capital for managing day-to-day operations. or short term funds to manage day-to-day operations of their businesses. The long term credit funds are mainly provided by the institutions like Small Industries Development Bank of India (SIDBI), Commercial Banks, State Financial Corporations (SFCs), North Eastern Development Finance Corporation Ltd (NEDFi) and Non-Banking Financial Companies (NBFCs) including NBFC-MFIs.

Similarly, the working capital needs of the sector are largely met by the banking sector, including Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs), Urban Co-operative Banks (UCBs), National Small Industries Corporation (NSIC) and also microfinance institutions. MFIs particularly play a role in financing small household businesses.

Small Industries Development Bank of India (SIDBI),

SIDBI requires a special mention in MSME financing as it is the Principal Financial Institution for the promotion, financing and development of the Micro, Small and Medium Enterprise (MSME) sector and for the co-ordination of the functions of the institutions engaged in similar activities. It was set up on April 2, 1990 under an Act of Indian Parliament.

SIDBI provides financial support by way of (a) refinance to eligible Primary Lending Institutions (PLIs) such as banks, State Financial Corporations (SFCs), State Industrial Development Corporations (SIDCs), Micro Finance Institutions (MFIs) etc. for onward lending to MSMEs and (b) direct assistance to MSMEs which is channelised through SIDBI's network of 103 branch offices.

The credit operations of SIDBI are supplemented with Promotional & Developmental (P&D) activities, which are designed to support enterprise creation in the MSME sector and strengthening of the existing MSMEs to face the emerging challenges of growing globalisation and increasing competition. SIDBI has also been constantly working on building various institutional mechanisms to cater to the emerging needs of the MSME sector and has set-up various subsidiaries / associates which include SIDBI Venture Capital Ltd. (SVCL), Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), SME Rating Agency of India Ltd. (SMERA), India SME Technology Services Limited (ISTSL) India SME Asset Reconstruction Company Ltd. (ISARC).

The micro credit programme of SIDBI is designed with the objective of reaching financial services to the unbanked segment of the population as a step towards financial inclusion. SIDBI has completed 10 years of dedicated micro finance service to the Nation. SIDBI

provides a complete range of financial and non-financial services such as loan funds, grant support, equity and institution building support to the retailing MFIs so as to facilitate their development into financially sustainable entities, besides developing a network of service providers for the sector.

SIDBI is currently implementing the MSME Financing and Development Project (MSMEFDP). This is a multi-agency, multi-activity Project on Financing and Development of MSMEs. The Department of Financial Services, Ministry of Finance, Government of India is the Nodal Agency for the Project. The World Bank, Department for International Development (DFID) UK, KfW Germany and GTZ Germany are the international partners in the Project.

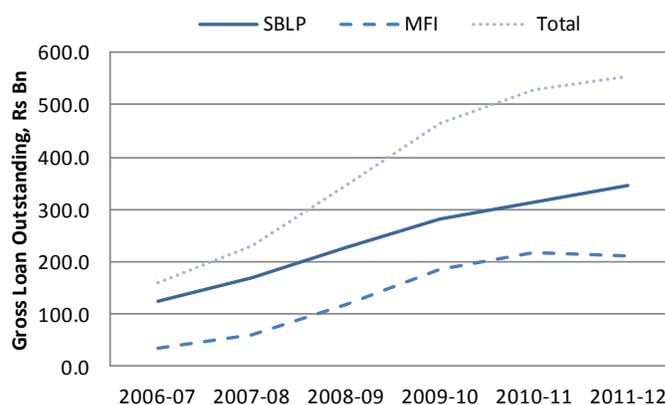
Microfinance institutions

In addition to banks and other financial institutions, Microfinance Institutions (MFIs) have also emerged as a source of finance for several very small microenterprises particularly the home-based enterprises. The total loan outstanding of direct microfinance through MFIs as of March 2012 was estimated to be Rs209.13 bn. This loan outstanding belonged to around 50 NBFC-MFIs and several NGO-MFIs operating in the country.

Further, under SHG bank linkage channel (SBLP) the total loan outstanding of banks to SHGs in the country in March 2012 was estimated to be Rs346.55 billion.

Thus as of March 2012 the total loan outstanding under microfinance including both channels of microfinance – SHG Bank linkage and direct microfinance was Rs555.68 bn.

Chart 10: Microfinance credit supply



Source: The Bharat Microfinance Quick Report 2012, Sa-Dhan

As shown in the previous section the total estimated demand for credit for microenterprises is somewhere around Rs8.0 trillion while the supply from banks to the microenterprise is somewhere around Rs1.5 trillion. Even if we add to this Rs0.5 trillion of microfinance supply, still the total supply is only Rs2.0 trillion, which leaves us with a gap of Rs6.0 trillion or 75% gap in financing in microenterprises.

5 Efforts towards greater financial inclusion of MSMEs

Government of India has taken different institutional and policy measures for facilitating credit to MSMEs in the last few decades. Institutional measures include creation of institutions such as Industrial Development Bank of India (IDBI), Small Industries Development Bank of India (SIDBI), National Bank for Agriculture and Rural Development (NABARD), Export Import Bank of India (EXIM Bank), State Finance Corporation (SFC)s, State Industrial Development Corporation (SIDC)s, National Small Industries Corporation (NSIC) and various other facilities.

On the policy front one of the cornerstones has been the inclusion of MSME credit in the priority sector lending in 2005 and enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. Further, there have been other steps such as Credit Guarantee Scheme for the Micro and Small enterprises (MSEs), Performance and Credit Rating Scheme for the manufacturing MSEs, MSE Cluster Development Programme etc. All these did have an impact which is reflected in the increased flow of credit to MSME particularly after 2009; we have already seen these figures in the previous section.

5.1 Reserve Bank of India's priority sector guidelines for MSMEs

RBI has prescribed certain targets for banks for lending to the Micro, Small and Medium enterprise (MSME) sector. The targets for domestic banks and foreign banks are slightly different keeping in mind the limited presence of the foreign banks. The domestic commercial banks are expected to enlarge credit to priority sector and ensure that priority sector advances (which include the MSME) constitute 40 per cent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher. In order to ensure that sufficient credit is available to microenterprises within the MSME sector, following guidelines have been issued by RBI to banks:

- 40 per cent of the total advances to MSE sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to Rs 0.5 million and micro (service) enterprises having investment in equipment up to Rs 0.2 million.
- 20 per cent of the total advances to MSE sector should go to micro (manufacturing) enterprises with investment in plant and machinery above Rs 0.5 million and up to Rs 2.5 million, and micro (service) enterprises with investment in equipment above Rs 0.2 million and up to Rs 1.0 million. Thus, 60 per cent of MSE advances should go to the micro enterprises.
- While banks are advised to achieve the 60% target as above, the allocation of 60% of the MSE advances to the micro enterprises is to be achieved in stages viz. 50% in the year 2010-11, 55% in the year 2011-12 and 60% in the year 2012-13 (RBI circular RPCD.SME & NFS.No.BC.90/06.02.31/2009-10 dated June 29, 2010).

For Foreign banks the targets are the same except that Foreign banks are expected to enlarge credit to priority sector and ensure that priority sector advances (which includes the MSE sector) constitute 32 per cent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher. Within the overall target of 32 per cent to be achieved by foreign banks, the advances to MSE sector should not be less than 10 per cent of the adjusted net bank credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher. (RBI Master Circular RPCD.SME & NFS. BC. No. 09/06.02.31/2011-12 dated July 1, 2011 on 'Lending to Micro, Small and Medium Enterprises (MSME) Sector).

5.2 Other guidelines for banks

Public sector banks have also been advised to open at least one specialized branch in each district. The banks have been permitted to categorize their MSME general banking branches having 60% or more of their advances to MSME sector, as specialized MSME branches for providing better service to this sector as a whole.

As per the policy package announced by the Government of India for stepping up credit to MSME sector, the public sector banks have to ensure specialized MSME branches in identified clusters/centres with preponderance of small enterprises to enable the entrepreneurs to have easy access to the bank credit and to equip bank personnel to develop requisite expertise. Though their core competence will be utilized for extending finance and other services to MSME sector, they will have operational flexibility to extend finance/render other services to other sectors/borrowers. As on March 2011 there were 1,220 specialized MSME branches.

Cluster based approach to lending is being promoted to provide a full-service approach to cater to the diverse needs of the MSME sector. RBI has recommended to banks that this may be achieved through extending banking services to recognized MSE clusters. A cluster based approach may be more beneficial (a) in dealing with well-defined and recognized groups (b) availability of appropriate information for risk assessment (c) monitoring by the lending institutions and (d) reduction in costs.

The banks have, therefore, been advised to treat it as a thrust area and increasingly adopt the same for SME financing. United Nations Industrial Development Organisation (UNIDO) has identified 388 clusters spread over 21 states in various parts of the country. The Ministry of Micro, Small and Medium Enterprises has also approved a list of clusters under the Scheme of Fund for Regeneration of Traditional Industries (SFURTI) and Micro and Small Enterprises Cluster Development Programme (MSE-CDP) located in 121 Minority Concentration Districts. Accordingly, banks have been advised by RBI to take appropriate measures to improve the credit flow to the identified clusters of micro and small entrepreneurs from the Minorities Communities residing in the minority concentrated districts of the country.

Banks have also been advised that they should open more MSE focused branch offices at different MSE clusters which can also act as counseling centres for MSEs. Each lead bank of

the district may adopt at least one cluster (*Source:* RBI circular RPCD.SME & NFS.No.BC.90/06.02.31/2009-10 dated June 29, 2010).

5.3 Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

Government of India launched the Credit Guarantee Fund Scheme for Small Industries (now renamed as Credit Guarantee Fund Scheme for Micro and Small Enterprises) in August, 2000. The scheme is being operated by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) set up jointly by the Ministry of MSME, Government of India and SIDBI.

CGTMSE has been set up with a view to facilitate flow of credit to the MSE sector without the need for collaterals/third party guarantees. The main objective of the scheme is that the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed. The Credit Guarantee scheme (CGS) seeks to reassure the lender that, in the event of a MSE unit, which availed collateral-free credit facilities, fails to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the lender.

The Scheme covers collateral free credit facility (term loan and/ or working capital) extended by eligible member lending institutions to new and existing micro and small enterprises up to Rs. 10 million per borrowing unit. The guarantee cover provided is up to 75% of the credit facility up to Rs5 million with an incremental guarantee of 50% of the credit facility above Rs5 million and up to Rs10 million (85% for loans up to Rs. 0.5 million provided to micro enterprises, 80% for MSEs owned/operated by women and all loans to North East Region).

As on 30th November 2011, there were 125 eligible lending institutions registered as Member Lending Institutions (MLIs) of the Trust comprising of 26 Public Sector banks, 19 Private Sector Banks, 67 Regional Rural Banks (RRBs), 4 foreign banks and 9 other Institutions viz Andhra Pradesh State Financial Corporation, National Small Industries Corporation (NSIC), North Eastern Development Finance Corporation Ltd. (NEDFi), Delhi Financial Corporation, Kerala Financial Corporation, Tamilnadu Industrial Investment Corporation Ltd., Jammu & Kashmir Development Finance Corporation Ltd. (JKDFC), Export Import Bank of India (EXIM Bank) and Small Industries Development Bank of India (SIDBI).

5.4 Credit Linked Capital Subsidy Scheme (CLCSS)

The Ministry of Micro, Small and Medium Enterprises (MSME) is operating a Scheme namely Credit Linked Capital Subsidy Scheme (CLCSS) for Technology Upgradation of Micro and Small Enterprises. The Scheme aims at facilitating Technology Up-gradation of Micro and Small Enterprises (earlier known as Small Scale Industries). The Scheme was launched in October, 2000 and revised from September 2005. The revised scheme aims at facilitating Technology Upgradation of Micro and Small Enterprises by providing 15% Capital Subsidy (limited to maximum Rs1.5 million) for purchase of Plant & Machinery. Maximum limit of eligible loan for calculation of subsidy under the scheme is Rs10 million. Presently, 884 technologies under 48

products/ sub-sectors have been approved under the scheme. Since inception of the scheme, 15,613 units have availed subsidy of Rs8.13 billion till November 2011.

5.5 Scheme of Micro Finance Programme

The Ministry has been operating a Scheme of Micro Finance Programme since 2003-04 which has been tied up with the existing Micro Credit Scheme of SIDBI. Under the Scheme, the Government of India provides funds to SIDBI under 'Portfolio Risk Fund' (PRF) which is utilized for security deposit requirements of loan from the Micro Finance Institutions (MFIs) / NGOs. At present SIDBI takes fixed deposit equal to 10% of the loan amount. Under the PRF, the share of MFIs/NGOs is 2.5% of the loan amount (i.e. 25% of security deposit) and balance 7.5% (i.e. 75% of security deposit) is adjusted from the funds provided by the Government under the scheme.

The funds under PRF are to be utilized for extending loans in the underserved States like North Eastern States, Sikkim, Bihar, Jharkhand, West Bengal, Orissa, Madhya Pradesh, Chhattisgarh, Uttar Pradesh, Jammu & Kashmir, Rajasthan and Uttarakhand and underserved pockets/ districts of other States. During 2011-12, the Government has released an amount of Rs.16.10 crore towards 'Portfolio Risk Fund' (PRF). As on 30th November 2011, cumulative loan amount provided to MFIs/NGOs under the Scheme stood at Rs.15.5 billion covering approximately 2.3 million persons. Of this, it has been estimated that the share of women beneficiaries under the Scheme is more than 80%.

5.6 Financing the "missing middle" through MFIs: an effort by GIZ under MSMEFDP²

Looking at the financial need of the microenterprises and their inability to access it from formal sources, German Technical Cooperation (GIZ), in partnership with Small Industries Development Bank of India (SIDBI) and Satin Creditcare Network Limited (a leading Microfinance Institution in North India) supported a pilot under MSME Financing and Development Project (MSMEFDP) in 2009.

The pilot was aimed at up scaling credit from a Microfinance Institution to the micro enterprises in the informal sector on one hand and downscaling credit from SIDBI to these microenterprises on the other hand. The MFI was upscaled to provide credit in the range of Rs50,000 to Rs200,000 and SIDBI had to downscale the products to offer loans between Rs200,000 to Rs500,000.

The finance through these two channels – MFI and SIDBI – was made available to the upstream apparel supply chain operating in the industrial areas of Govindpuri, Sangam Vihar and Tughlakabad Extension in Delhi. The loans were disbursed to the microenterprises involved in the garment manufacturing processes such as fabrication, embroidery and finishing.

GIZ helped Satin design the microenterprise loan product. Satin also received a dedicated line of credit from SIDBI, New Delhi office for financing its microenterprise loan portfolio. GIZ

² *Source: Financial Inclusion of Microenterprises in the Informal Sector: Missing Middle, 2010 – GIZ, SIDBI and Satin*

provided support to SIDBI, Okhla branch office, to undertake a market survey to identify eligible borrowers. It also sponsored the services of a firm of financial consultants who helped the prospective applicants in the preparation of financial statements as well as financial projections and filling in SIDBI's loan application forms. GIZ also organized interactive sessions and workshops to assess the financial needs of the microenterprises as well as to sensitize them about the financial services available to them. Additionally, GIZ arranged for orientation courses on accounting, finance, quality improvement and marketing for the microenterprises.

These loans were given for meeting the working capital needs of the microenterprises as well as for financing assets such as industrial sewing machines and boilers.

The availability of credit enabled these microenterprises to improve their production capacities as well as production efficiency. The microenterprises utilized the loans to increase their productive assets and to meet their working capital requirements. They were able to hire more skilled workers and could generate higher revenues and profits.

In the process these micro entrepreneurs in informal sector were exposed to credit products from the formal sector. The availability of timely loans helped these enterprises in reducing their interest costs as the cost of informally arranged credit was very high. There was also an increase in business confidence among many of the entrepreneurs.

The key direct impacts of getting access to finance, that pilot showed were:

- Microenterprises could enhance their production capacity, hire more workers and process more orders
- Entrepreneurs could replace their old machines with new, more efficient ones
- Entrepreneurs could retain labour
- The above changes resulted in increase in sales and profits

The pilot demonstrated that the quality of the loan portfolio generated was inherently sound, as most of the loans were repaid regularly. A few loan accounts were irregular due to a mismatch in the production and receivables cycle of the microenterprises and the frequency of the repayment obligations.

5.7 Credit Support to MSMEs by National Small Industries Corporation Limited (NSIC)³

National Small Industries Corporation (NSIC) Ltd. was established by the Government of India in 1955 to support MSMEs. The Corporation is providing Credit Facilitation to MSMEs through its various schemes. During 2010-11, total credit facilitation of Rs23.5 billion was provided to MSMEs and in 2011-12 until 31st December 2011 credit facilitation to the tune of Rs21.9 billion had been provided. The various schemes providing Credit Support to MSMEs include:

³ Details about NSIC are presented in Section 7.2 and details of different kinds of supports extended by NSIC are provided in Annexure 2

Tie-up arrangements with Banks

NSIC has entered into tie-up arrangements with twelve banks for helping MSMEs in accessing term and working capital loans.

Financing Procurement of Raw Materials & Marketing Activities (Short term)

NSIC facilitates raw material requirement of the MSMEs by making arrangements with bulk manufacturers for procuring the materials and supplying the same to MSMEs. In case they need any credit support, NSIC provides financial assistance for raw material procurement by making the payment to suppliers. NSIC facilitates financing for marketing activities such as Internal Marketing, Exports and Bill Discounting to micro, small & medium enterprises.

Performance & Credit Rating Scheme for Small Enterprises

On behalf of the Ministry of MSME, NSIC is implementing “Performance & Credit Rating Scheme” for Micro and Small Enterprises (MSEs). The scheme is being operated through 7 accredited rating agencies i.e. CARE, CRISIL, FITCH, ICRA, ONICRA, SMERA – D&B and Brickwork Rating. The fee to be paid by the MSEs for the rating, is subsidized by the Government to the extent of 75% of the rating fee up to a maximum of Rs.40,000/-.

6 Initiatives for promoting MSMEs: programmes and schemes

Apart from efforts on the financial front other initiatives have also been taken to ease constraints and build capacity of the MSME sector. One of the key developments on MSME sector has been the enactment of MSME Development Act 2006 which came into effect on 2nd October 2006. Subsequently both the Central and State Governments have taken steps towards implementation of the Act. While the Central Government has framed a number of Rules and issued Notifications in respect of the Act; different State Governments have also issued notifications under the Act. These notifications include:

- Notification of Authority for receiving Memoranda for Micro and Small Enterprises (MSEs):
- Notification of Rules of MSE-Facilitation Council (MSEFC)
- Notification of Constitution of Micro and Small Enterprises Facilitation Council (MSEFC)

The Government of India also laid significant emphasis on development of MSME by setting up the Prime Minister's Task Force on MSME in September 2009. Its members included Member, Planning Commission, Secretaries of concerned Government Departments, Deputy Governor, RBI, Chairman and Managing Director, SIDBI and representatives of MSME associations.

The Task Force made recommendations on six thematic areas including credit, marketing, labour, rehabilitation & exit policy, infrastructure, technology & skill development and taxation. The implementation of the recommendations made by the Task Force is monitored periodically by the Steering Group constituted under the Chairmanship of Principal Secretary to the Prime Minister.

Government has also initiated several programmes and schemes for development of MSMEs in the country, these are presented below.

6.1 National Manufacturing Competitiveness Programme

With a view to build the capacity of the Indian micro, small and medium manufacturing enterprises for overcoming competition in the global markets and facing challenges being posed by the entry of the multinationals in the domestic markets, the Ministry of MSME is implementing the National Manufacturing Competitiveness Programme (NMCP). The objective of NMCP is to ensure healthy growth of the MSME Manufacturing Sector.

The 10 components of the Programme dealing with the firm level competitiveness are being implemented in the Public-Private-Partnership (PPP) mode. The 10 components of NMCP address the entire gamut of manufacturing in the sector.

6.2 Rajiv Gandhi Udyami Mitra Yojana

The objective of Rajiv Gandhi Udyami Mitra Yojana (RGUMY) is to provide handholding support and assistance to the potential first generation entrepreneurs, who have already successfully completed Entrepreneurship Development Training Programme (EDP) /Skill Development Training Programme (SDP)/Entrepreneurship-cum-Skill Development Training Programme (ESDP) /Vocational Training Programmes (VT), through the selected lead agencies i.e. 'Udyami Mitras', in the establishment and management of the new enterprise, in dealing with various procedural and legal hurdles and in completion of various formalities required for setting up and running of the enterprise. An 'Udyami Helpline' (a Call Centre for MSMEs) with a toll free No. 1800-180-6763 is functioning under the Scheme which provides information, support, guidance and assistance to first generation entrepreneurs as well as other existing entrepreneurs. The Udyami Helpline provides information about various promotional schemes of the Government, procedural formalities required for setting up and running the enterprise and how to access credit from Banks etc.

6.3 Micro & Small Enterprises Cluster Development Programme (MSE-CDP)

The Micro and Small Enterprises – Cluster Development Programme (MSE-CDP) is being implemented for holistic and integrated development of micro and small enterprises in clusters through Soft Interventions such as diagnostic study, capacity building, market development, export promotion, skill development, technology upgradation, organizing workshops, seminars, training, study visits, exposure visits, etc. and Hard Interventions such as setting up of common facility centers and infrastructure upgradation.

By 30th November 2011, a total of 477 clusters in the country had been taken up under the MSE-CDP for Diagnostic Study, Soft Interventions and Hard Interventions spread over 28 States and 1 UT. Apart from these, infrastructure development projects for creating industrial infrastructure had also been taken up. Under infrastructure development component, 98 new ID Centres had been sanctioned. Out of the above sanctioned centres, 77 new ID Centres had been completed. A total of 11,708 plots had been allotted to small and tiny units and 3,956 units had been established. Infrastructure upgradation in 33 old industrial estates had also been undertaken. Out of these, upgradation in 25 old industrial estates had been completed.

6.4 Prime Minister's Employment Generation Programme (PMEGP)

Prime Minister's Employment Generation Programme (PMEGP) was launched in 2008-09 with the merging of the erstwhile Prime Minister Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP) schemes of this Ministry with a total plan outlay of Rs47.4 billion including Rs2.5 billion for backward and forward linkages. The main objectives of the PMEGP are:

- To generate employment opportunities in rural as well as urban areas;

- To bring together widely dispersed traditional artisans/ rural and urban unemployed youth and give them self-employment opportunities to the extent possible, at their place;
- To provide continuous and sustainable employment to a large segment of traditional and prospective artisans and rural & urban unemployed youth; and
- To increase the wage earning capacity of artisans

The salient features of PMEGP are given in the Annexure.

6.5 Scheme of Fund for Regeneration of Traditional Industries (SFURTI)

The Ministry of MSME implemented a cluster-based scheme titled “Scheme of Fund for Regeneration of Traditional Industries (SFURTI)” for development of around 100 clusters in khadi, village and coir sectors⁴ with a total cost of Rs972.5 million over a period of 5 years (beginning with 2005-06) to make industries in Khadi & Village Industries (KVI) and coir sectors more productive and competitive and to increase the employment opportunities in rural areas of the country. The Scheme was targeted to cover an estimated 50,000 beneficiary families.

The objective of SFURTI was to establish a regenerated, holistic, sustainable and replicable model of integrated cluster-based development of traditional industries in KVI and coir sectors. This primarily means:

- More competitive traditional industries with more market-driven, productive and sustained employment for the participants;
- Strengthened local socio-economic governance system of the industry clusters, with the active participation by the local stakeholders that can help to continue undertaking development initiatives by themselves.

⁴ Khadi & Village Industries Commission and Coir Board are statutory bodies under Ministry of MSME.

7 Institutional support for MSMEs

Several institutions exist in the country to build capacity of entrepreneurs and to support and guide them in their businesses.

7.1 Entrepreneurship and Business Development Institutes

There are several institutes in the country for education on entrepreneurship and business development. The Entrepreneurship Development Institute of India (EDI) is an autonomous body and not-for-profit institution, set up in 1983. It is sponsored by apex financial institutions, namely the IDBI Bank Ltd, IFCI Ltd, ICICI Ltd and State Bank of India (SBI). EDI is committed to entrepreneurship education, training and research.

Other similar institutes in the country include National Institute for Entrepreneurship and Small Business Development (NIESBUD), Noida which is an apex body under the Ministry of Micro, Small & Medium Enterprises. Indian Institute of Entrepreneurship (IIE), Guwahati and National Institute for Micro, Small and Medium Enterprises (NI-MSME), Hyderabad which are autonomous institutes under the Ministry of MSME.

7.2 National Small Industries Corporation Limited (NSIC)

National Small Industries Corporation (NSIC) Ltd. was established by the Government of India in 1955. The corporation has been established *"to aid, counsel, assist, finance, protect and promote the interest of small industries in India."* With the enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, medium enterprises also came into its ambit. NSIC has been accorded "Mini Ratna" Status (Category – II). To enhance the competitiveness of micro, small & medium enterprises, NSIC provides integrated support services in the areas of Marketing, Technology, Finance, etc. NSIC is implementing the schemes of Marketing Assistance and Performance & Credit Rating on behalf of the Ministry of MSME. The details of these schemes are given in Annexure 2.

7.3 MSME Development Institutes (MSME DI's)

There are 30 MSME Development Institutes (MSME – DIs) and 28 Branch MSME Development Institutes set up in the State capitals and other industrial cities all over the country. The main activities of these institutions are:

- Assistance/Consultancy to Prospective Entrepreneurs and to existing units
- Preparation of State Industrial Profiles
- Preparation/Updation of District Industrial Potential Surveys
- Project Profiles
- Entrepreneurship Development Programmes
- Motivational Campaigns
- Production Index

- Management Development Programmes and Skill Development Programmes
- Vendor Development Programmes for Ancillarisation
- Quality Control & Upgradation
- Export Promotion
- Ancillary Development
- Common Facility Workshop/Lab
- Preparation of Directory of Specific Industry
- Intensive Technical Assistance
- Coordination with DICs
- Linkage with State Government Functionaries
- Market Surveys
- Promotion of handholding programme called Rajiv Gandhi Udyami Mitra Yojana (RGUMY) for micro & small entrepreneurs
- Other Action Plan Activities assigned by the Headquarter

7.4 MSME Tool Rooms (MSME-TRs)

The 10 MSME-TRs set up under Indo-German and Indo-Danish collaborations assist MSMEs in technical upgradation and provide good quality tooling through designing and producing tools, moulds, jigs & fixtures, components etc. These also provide training and consultancy in the area of tool and die making.

7.5 MSME Technology Development Centres (MSME-TDCs)

These are product-specific Centres for addressing product specific problems and rendering technical services, developing and upgrading technologies and manpower development & training in respective product groups like Foundry & Forging; Electronics; Fragrance & Flavour; Sport Shoes; Electrical Measuring Instruments and Glass.

7.6 MSME Testing Centres (MSME-TCs)

These at Chennai, Delhi, Kolkata and Mumbai have facilities for quality upgradation, training/ consultancy in testing, quality control, quality management, process quality control systems, etc. The 7 Field Testing Stations (MSME-TSs) provide focused testing services in the cities of Bangalore, Bhopal, Ettumanur, Jaipur, Hyderabad, Kolhapur and Puducherry which have significant concentration of MSMEs.

7.7 MSME - Training-cum-Product Development Centres (TPDCs)

Four Training-cum-Product Development Centres (TPDCs) are being set up for Agro and Food Processing Industries in the campus of MSME - Development Institutes at Ludhiana, Kanpur, Indore and Guwahati within a total cost of Rs45.7 million.

Annexure

1. The salient features of Prime Minister's Employment Generation Programme (PMEGP)

- I. Any individual, above 18 years of age, is eligible.
- II. No income ceiling has been prescribed for assistance.
- III. For setting up of project costing above Rs1 million in the manufacturing sector and above Rs0.5 million in the business /service sector, the beneficiaries should possess educational qualification of having passed at least VIII standard.
- IV. Assistance under the Scheme is available only for new projects sanctioned. Self Help Groups (SHG) including those belonging to BPL are also eligible for assistance provided that they have not availed benefits under any other Scheme.
- V. The borrower is required to bring in own contribution of 10 per cent of the project cost. In the case of beneficiaries belonging to SC/ST and borrowers from other weaker sections, etc., the beneficiary's contribution is 5 per cent of the project cost.
- VI. Banks will sanction loan for the balance of the project cost (90% or 95% as the case may be). After the sanction of the credit by the Bank and after the beneficiary has undergone EDP training, eligible amount of margin money will be kept in term deposit for three years in the account of the borrower at the financing bank branch, which will be credited to the borrower's loan account after a period of two years from the date of first disbursement of loan.

2. Schemes of NSIC

Raw Material Distribution

NSIC Corporation has signed agreements with the major bulk producers like NALCO, BALCO – for Aluminium, SAIL, RINL – for Iron Steel, CPCL – for Paraffin Wax, CIL – for Coal and IOCL – for Polymer products. These arrangements facilitate MSMEs in getting material at the manufacturer's price with the priority of dispatch. This results into reduction in the cost of production and making the products of MSMEs competitive in the domestic as well as international markets. These efforts of the Corporation supplement the programmes of the Government aimed in making Indian MSMEs globally competitive. The financial assistance is also extended to MSMEs for procurement of raw material. During 2010-11, raw material to the tune of Rs77.1 billion was provided to MSMEs. During the FY 2011-12 upto 31st December 2011 raw material worth Rs72.2 billion had been extended to MSMEs.

Consortia and Tender Marketing

Micro & Small Enterprises (MSEs) in their individual capacity face problems to procure and execute large orders, which deny them a level playing field *vis-à-vis* large enterprises. NSIC, accordingly forms consortia of small units manufacturing the same products, thereby pooling in their capacity which provides comfort level to MSEs as suppliers and also to buyers. The Corporation applies for Tenders on behalf of consortia of MSEs and secures orders for bulk quantities. These orders are then distributed amongst MSEs in tune with their production capacity. During the financial year 2011-12 upto 31st December, 2011 Corporation participated in the Tenders valuing Rs4.7 billion and executed tender to the tune of Rs. 4.6 billion.

Single Point Registration for Government Purchase

NSIC operates a Single Point Registration Scheme under the Government Purchase Programme. The micro and small enterprises registered under this Scheme get the following facilities:-

- Issue of Tenders free of cost
- Advance intimation of Tenders issued by DGS&D
- Exemption from payment of earnest money deposit
- Waiver of security deposit up to the monetary limit for which the enterprise is registered; and
- Issue of competency certificate after due verification, in case the value of an order exceeds the monetary limit.

During the financial year 2010-11, 3,544 units were registered under the scheme and in 2011-12 (until 31st December, 2011) 2,286 units were registered under the scheme.

Exhibitions

To showcase the competencies of Indian MSMEs, NSIC facilitates MSMEs participation in International Exhibitions, Fairs, etc. on concessional terms under the Marketing Assistance Scheme of the Ministry of MSME by partially meeting the cost towards rent of stall as well as air fare.

Credit Support to MSMEs

The Corporation is providing Credit Facilitation to MSMEs through its various schemes. During 2010-11, total credit facilitation of Rs23.5 billion was provided to MSMEs and in 2011-12 until 31st December 2011 credit facilitation to the tune of Rs21.9 billion had been provided. The various schemes providing Credit Support to MSMEs include:

Tie-up arrangements with Banks

One of the major challenges faced by MSMEs is inadequate access to finance due to lack of financial information and non-formal business practices. To overcome these problems, NSIC has entered into tie-up arrangements with twelve banks (i.e. United Bank of India, UCO Bank, Oriental Bank of Commerce, Central Bank of India, Bank of Maharashtra, YES Bank, AXIS Bank, Karur Vyasa Bank, HSBC, Chinatrust Commercial Bank, Union Bank of India and State Bank of Hyderabad) for helping MSMEs in accessing term and working capital loans.

Financing Procurement of Raw Materials & Marketing Activities (Short term)

NSIC facilitates raw material requirement of the MSMEs by making arrangements with bulk manufacturers for procuring the materials and supplying the same to MSMEs. In case they need any credit support, NSIC provides financial assistance for raw material procurement by making the payment to suppliers. NSIC facilitates financing for marketing activities such as Internal Marketing, Exports and Bill Discounting to micro, small & medium enterprises.

Performance & Credit Rating Scheme for Small Enterprises

On behalf of the Ministry of MSME, NSIC is implementing "Performance & Credit Rating Scheme" for Micro and Small Enterprises (MSEs). The scheme is being operated through 7 accredited rating agencies i.e. CARE, CRISIL, FITCH, ICRA, ONICRA, SMERA – D&B and Brickwork Rating. The fee to be paid by the MSEs for the rating, is subsidized by the Government to the extent of 75% of the rating fee up to a maximum of Rs40,000/-.

Ratings serve as a trusted third party opinion on the unit's capabilities and credit worthiness. During 2010-11, 10,327 units were rated under the scheme.

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SIDBI, set up on April 2, 1990 under an Act of Indian Parliament, functions as the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and Co-ordination of the functions of the institutions engaged in similar activities.

The credit operations of SIDBI are supplemented with Promotional & Developmental (P&D) activities, which are designed to support enterprise creation in the MSME sector and strengthening of the existing MSMEs to face the emerging challenges of growing globalisation and increasing competition.

SIDBI has also been constantly working on building various institutional mechanisms to cater to the emerging needs of the MSME sector and has set-up various subsidiaries / associates which include SIDBI Venture Capital Ltd. (SVCL) for venture capital, Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) for collateral free loans, SME Rating Agency of India Ltd. (SMERA) for credit rating, India SME Technology Services Limited (ISTSL) for technology transfer and India SME Asset Reconstruction Company Ltd. (ISARC) for Asset reconstruction.



M2i consulting has been set up to catalyze the growth of microfinance by bringing in more professionalism in the sector. Towards this mission, we endeavor to work with start-up as well-established MFIs, entrepreneurs, investors and donors and provide such services which facilitate integration of microfinance with the economic mainstream.

We bring in best application of modern management principles to microfinance, by continuously assimilating knowledge from diverse fields and by building on the body of knowledge within the microfinance domain. We use rigorous analysis to solve complex management problems, while maintaining absolute clarity in the recommendations we make. Our processes are designed to ensure an intellectually rewarding experience for our clients, as well as, for us. We interact closely with our clients to provide customized solutions. While we emphasize

on innovations, we follow them up with rigorous validation and standardization to ensure sustainability of these innovations.



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