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Growth of Indian Economy through Innovative SME Financing Schemes – A Way Out

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Abstract: *Small and Medium Enterprises (SMEs) are critical to the nation's economy. They contribute approximately 40 per cent of India's domestic production, almost 50 per cent of total exports and 45 per cent of industrial employment. More importantly, they are the second largest employers of manpower, after agriculture. SMEs in India operate mostly in the unorganised sector and are the source of livelihood for millions of people. The social contribution made by SMEs is even more significant than its economic contribution. Within the SME sector, the small sector serves as a seed-bed for nurturing entrepreneurial talent and originating units to eventually grow into medium and large enterprises. Despite their economic significance, SMEs face a number of bottlenecks that prevent them from achieving their full potential. One of the major problem being faced by SME is inadequate finance. 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. Improved and easy access to finance may lead to improved technology orientation in SME development.*

The present paper focuses on the economic importance of Small and Medium – Scale Enterprises. The paper highlights the importance of financing in Small and Medium – Sized Enterprises. It also talks about all those reasons that forbid the financial institutions in lending the credit. In brief the paper clears out the meaning of SME Financing SME Financing Gap. The paper has dealt in detail various innovative techniques of financing SMEs in India and the issues related with it. Finally, the paper ended with the conclusion that the innovation is the key to success and therefore banks as well as SMEs should adopt the innovative credit facilities for its growth and development.

Keywords: *SMEs, bank, finance, innovation, techniques, credit.*

I. Introduction

Small and Medium-sized Enterprises (SME) are becoming an increasingly important factor of economic growth and development not only in developed market-based economies but in transition and developing countries as well. Due to their flexibility, vitality, and tendency for innovative undertaking and risks, they are considered to be the leading initiators of economic growth and a single most important generator of economic activity. The policy makers have recognized and acknowledged the role and importance of SMEs in generating high employment and promoting innovativeness and competitiveness of their economies, as key preconditions for achieving smart, sustainable and comprehensive development. SMEs are the most efficient parts of economies because they have the ability to adjust to the constantly changing requests imposed by the global and dynamic market in a more superior way than the large enterprises. The constantly rising share of SMEs in total GDP, employment, export and import, as well as an increasing number of newly opened enterprises year by year, clearly shows that they are becoming a leading factor of economic recovery and development. The SMEs dominate in almost every sector of the economy.

Today, it accounts for nearly 35% of the gross value of output in the manufacturing sector and over 40% of the total exports from the country. In terms of value added this sector accounts for about 40% of the value added in the manufacturing sector. The sector's contribution to employment is second highest next to agriculture. The opportunities of growth in the SMEs sector are enormous due to the following factors:

1. Less Capital Intensive
2. Extensive Promotion & Support by Government
3. Reservation for Exclusive Manufacture by small scale sector
4. Project Profiles
5. Funding - Finance & Subsidies
6. Machinery Procurement
7. Raw Material Procurement
8. Manpower Training
9. Technical & Managerial skills
10. Tooling & Testing support
11. Reservation for Exclusive Purchase by Government
12. Export Promotion

13. Growth in demand in the domestic market size due to overall economic growth
14. Increasing Export Potential for Indian products
15. Growth in Requirements for ancillary units due to the increase in number of green-field units coming up in the large scale sector.

SMEs sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification. By its less capital intensive and high labor absorption nature, SMEs sector has made significant contributions towards employment generation and rural industrialization. SMEs sector in India creates largest employment opportunities for the Indian populace, next only to agriculture. It has been estimated that 100,000 rupees of investment in fixed assets in the SMEs sector generates employment for four persons. SMEs Sector plays a major role in India's present export performance. 45%-50% of the Indian Exports is contributed by the sector. Direct exports from the sector account for nearly 35% of total exports. Besides direct exports, it is estimated that small-scale industrial units contribute around 15% to exports indirectly. This takes place through merchant exporters, trading houses and export houses. They may also be in the form of export orders from large units or the production of parts and components for use for finished exportable goods. The exports from SMEs sector have shown excellent growth rates in this decade.

II. Need Of The Study

Study relating to SMEs, their problems and source of financing has been done but regarding the SME financing schemes has not been done. Though the SMEs contribution towards economic growth is very significant but still they face problem in getting credit avenues. There are various innovative measures that has been undertaken to provide finance to SMEs. The study felt the need to focuses on these measures and the benefits provide by them. The present tries to cover the neglected areas.

Objectives of the study

Objectives are the guiding lights of a study. The present study was undertaken to achieve the following objectives: -

- To know about the innovations in SME financing
- To know about the various SME financing schemes
- To know the effectiveness of SME financing
- To know the problems faced by SMEs in getting credit from financial institutions.

III. Importance of Financing in Small and Medium – Sized Enterprises

It’s a well known fact that the SME sector occupies an important position in any developing economy. If adequate and timely financial help is provided to them, they can do wonders in any economy. Financing has been identified in many studies as the most important factor determining the survival and growth of small and medium-sized enterprises (SMEs) in both developing and developed countries. Access to financing allows SMEs to undertake productive investments to expand their businesses and to acquire the latest technologies, thus ensuring their competitiveness and that of the nation as a whole. Poorly functioning financial systems can seriously undermine the microeconomic fundamentals of a country, resulting in lower growth of income and employment.

The classical perspective looks upon the SME sector as vital for employment generation, local wealth creation, development of economically backward regions, development of local skills and resources leading to rise in income fuelling economic growth for the entire region and onward to rise in the national income. Improved access to finance will benefit the SMEs in many ways, besides bringing in direct monetary savings. The market driven compulsion to invest in new technologies and tools along with awareness and capacity building exercises would tend to build a culture of stronger business management through periodic upgrading. This would sustain the positive impacts of this option for the long term. Improved and easy access to finance may lead to improved technology orientation in SME development.

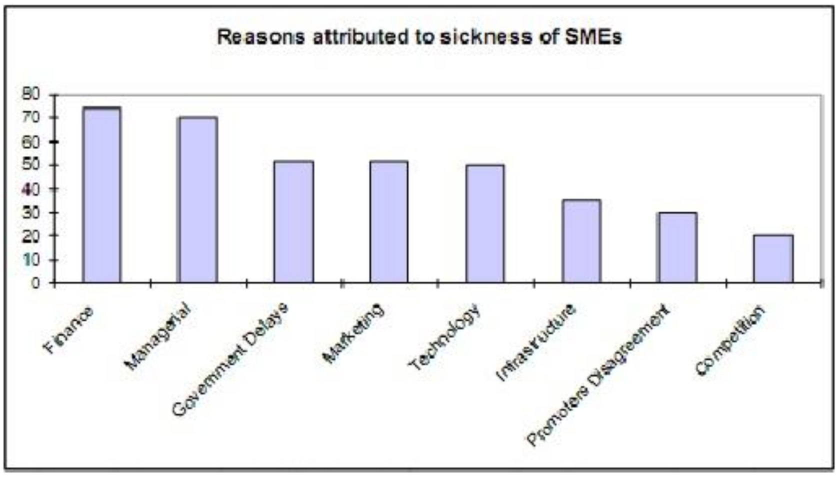
Innovative financing in SMEs is the leading engine of economic growth and a key element in making businesses competitive, generating new jobs and achieving smart and sustainable development. Basically, the future competitiveness of small scale businesses will not be possible without excellence in financing techniques. Turning smart ideas into credit creation is set as an imperative in developed market and policy makers have focused their attention on increasing investments in knowledge and improving access to finance for further expansion and development. Thanks to its flexibility and ability to quickly and efficiently adapt to changes in the market, small scale industries have the ability to undertake innovative activities and commercialize innovation much faster than the large enterprises. Innovation, as harvesting the fruits of scientific achievement, requires much more than the ability of converting new ideas into commercial products. It is necessary to provide material resources and availability of appropriate business skills, an adequate system of protection of intellectual property, entrepreneurial incentives and innovative activities. Efforts must be directed towards the development of a culture that is dynamic and that considers innovation as a prerequisite for further economic growth and job creation. The Importance of Small and Medium Enterprises (SMEs) in any economy cannot be overlooked as they form a major chunk in the economic activity of nations. They play a key role in industrialization of a developing country like India.

IV. Reasons for lack of financial help to SMEs

Despite their economic significance, SMEs face a number of bottlenecks that prevent them from achieving their full potential. Some of the major obstacles in the path of business development for SMEs relate to a wide range of issues. Key among them are, insufficient credit information on SMEs, low market credibility of SMEs (despite their intrinsic strengths) and constraints in analysis. This leads to sub-optimal delivery of credit and services to the sector. As the access of SMEs to capital markets is very limited, they largely depend on borrowed funds from banks and financial institutions. While investment credit to SMEs is provided by financial institutions, commercial banks extend working capital. In the recent past, with growing demand for universal banking services, term loans and working capital are becoming available from the same source. Besides the traditional needs of finance for asset creation and working capital, the changing global environment has generated demand for introduction of new financial and support services by SMEs. There is an urgent need to regenerate SME financing.

The problem of access to finance, collaterals, obsolete technology/machineries/equipments, deficiency of business development services, marketing, infrastructural bottlenecks, poor financial and managerial knowledge, and inadequacy of inputs/skilled labor are the common problems being faced by the SMEs. Of all the problems faced by the SMEs, non-availability of timely and adequate credit at reasonable interest rate is one of the most important. SME entrepreneurs face problem in obtaining the financing they require as well as a lack of interest on the part of commercial banks in dealing with them. The lenders perceive SME financing as a risky venture due to inadequate records leading to low credit-worthiness and higher transaction costs. SME entrepreneurs find it difficult to understand the requisites for obtaining loans and often remain confused as to how to approach the commercial banks. This typically leads to a situation where the SME entrepreneurs are at the mercy of local merchants who take advantage of the situation and charge exorbitantly higher rates of interest and dictate their own terms of lending. Since the nineties the share of commercial bank credit that goes to the SSI sector is falling (though growing in absolute terms). Some of the major causes for low availability of bank finance to this sector are the high-risk perception, inadequate data and usage of external credit rating. There is no shortage of reasons why banks are reluctant to lend to MSMEs, including: high administrative costs of small-scale lending, asymmetric information, high risk perception and lack of collateral. Maturities of commercial bank loans extended to SMEs are often limited to a period far too short to pay off any sizeable investment. Access to competitive interest rates is reserved for only a few selected blue-chip companies while loan interest rates offered to SMEs remain high.

Under the global meltdown circumstances, the bankers became unwilling to trust the borrowers and lend, consumers became jittery about their future earnings and hence averse to spend and investors put their investment plans on the back burner. Unlike in the advanced countries, banks are well capitalized with non-performing assets within limits. There is no commercial bank in India which has exclusively targeted the small business segment (like for example, Wells Fargo in the US) with customized value propositions to meet the specific needs of the SME customer. Banks in India have focused on SME segment largely as a generic group rather than on a comprehensive relationship footing with specific product offerings. The Branch based delivery of credit is high cost with an adverse risk-return trade off. The cost of servicing and the returns from SME also did not justify focus on this segment. SMEs in India have generic problems like inability to provide quality data and exhibit formal systems and practices and lack of asset cover. This has resulted in the unwillingness of banks to increase their SME lending. Legal and regulatory compliance has also been inadequate. Traditional drawbacks like opaque and asymmetric data and low capital base continue to characterize SME balance sheets. This problem is further compounded due to preponderance of a large cash economy in this segment. SME lending has thus met with limited success. The lending in the past has not been hugely successful and self sustaining also due to the lack of forward and backward linkages in the economy due to which SMEs had a low survival rate. SME banking space has also been skewed by major Indian banks, which account for most of the volumes in SME business, restricting themselves to low cost but rigid lending with no focus on cross-sell or flexibility.



The above figure shows that finance has been the major reason for the sickness of SMEunits. The other major reasons are ineffective management and technology upgradation according to the latest technological changes.

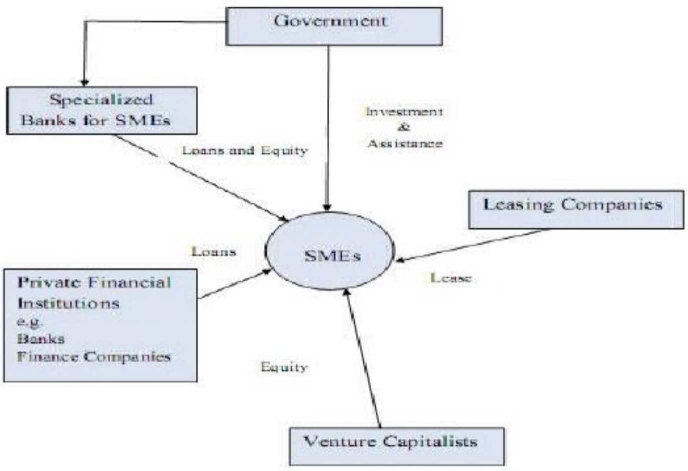
SME Financing

SME Finance is the funding of small and medium sized enterprises and represents a major function of the general business finance market – in which capital for firms of types is supplied, acquired, and costed/priced. Capital is supplied through the business finance market in the form of bank loans and overdrafts; leasing and hire-purchase arrangements; equity/corporate bond issues; venture capital or private equity ; and asset- based finance such as factoring and invoice discounting.

SME Financing Gap

A substantial portion of the SME sector may not have the security required for conventional collateral based bank lending, nor high enough returns to attract formal venture capitalists and other risk investors. In addition, markets may be characterized by deficient information (limiting the effectiveness of financial statement-based lending and credit scoring). This has led to claims of an "SME finance gap". The SMEs that fall into this category have been defined as Small Growing Businesses (SGBs) at a workshop in Geneva in July 2008, hosted by The Network for Governance; Entrepreneurship &Development (GE&D) There have been at least two distinctive approaches to try to overcome the so-called SME finance gap. The first has been to broaden the collateral based approach by encouraging bank lenders to finance SMEs with insufficient collateral. This might be done through an external party providing the collateral or guarantees required. Unfortunately, to the extent that the schemes concerned run counter to basic free market principles they tend to be unsustainable. Thus, the second approach has been to broaden the viability based approach. Since the viability based approach is concerned with the business itself, the aim has been to provide better general business development assistance to reduce risk and increase returns.

Various ways of Financing SME



V. Innovative Techniques of Financing SME in India

The importance and contribution of the SME sector to the economic growth and prosperity is well established. Their role in terms of employment creation, upholding the entrepreneurial spirit and innovation has been crucial in fostering competitiveness in the economy. Government's policy initiatives like enactment of the new Micro Small and Medium Enterprises Development Act, 2006, pruning of reserved SSI list, advising FIs to increase their flow of credit to the SME sector, are all initiatives towards boosting entrepreneurship, investment and growth. The government has tried various means to get banks to lend to SMEs. This is a tremendous accomplishment and an important step in strengthening the global economy by boosting the SME sector through organized and well-served scope for investments and financing. The impact of these finance models covers a wide range of strategies, including training, visibility, risk management, and access to new markets SIDBI is playing a very innovative and efficient role in providing credit facilities to SMSs- Among instruments of SME Financing, SIBDI, is the principal financial institution for the promotion, financing and development of industry in the SME sector in the country. SIDBI also provides appropriate support in the form of promotional and developmental services. In order to improve the credit flow to the SME sector, it has tied-up with eight public sector banks in the country. With these tie-ups, it has covered 150 SME clusters, out of the total 388 clusters identified across the country. In spite of the various initiatives taken by the government, banks and financial institutions, SMEs face certain challenges which are universal in nature. These problems relate to the issue of collaterals, cost of loans, delay in receivables, obsolete technology, marketing, etc. In order to address the above problems in the Indian context, some innovative instruments of financing have been introduced and institutional set ups have been created. Some of the major initiatives are:

Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) - This is like insurance for lenders. Credit to micro and small enterprises sector is generally perceived as high risk lending, more so, when there is absence of any collateral. In order to encourage banks to lend more to this sector, Government of India and SIDBI have set up the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in July 2000, to provide credit guarantee support to SMEs. Credit facility is provided to borrowers without any security collateral which means any asset other than business asset. However, the borrowers' eligibility would be for new or existing small and medium enterprises. Almost all banks both public and private use the schemes of CGTMSE for lending money to small and medium business entrepreneurs. CGTMSE provides backend guarantee to banks for loans up to 50 lacs so that MSEs get funds without any collateral or third party guarantee to start or expand their businesses. It is the first time in India that the special focus is being given to small and medium sector through CGTMSE. The main objective of CGTMSE is to focus on the viability of project proposed by the entrepreneur. Bankers take a very cautious approach when it comes to lending money to small and medium sector. So, CGTMSE is encouraging banks is to evaluate the project on cash flow instead of collateral. Therefore, banks should move from collateral based lending to cash flow based lending. There seems to be a gradual shift taking place to scale-up the ability of loan.

SME Rating Agency of India (SMERA) – SIDBI, along with leading public, foreign and private sector banks and Dun & Bradstreet Information Services India Private Limited (D&B), set up SME Rating Agency of India Ltd. (SMERA) in September 2005, as an MSME dedicated third-party rating agency to provide comprehensive, transparent and reliable ratings and risk profiling. SMERA, operational from September, 2005, is a third-party credit rating agency exclusively set up for MSMEs. It provides ratings that are comprehensive, transparent and reliable and which would enable the rated units to raise bank loans at competitive rates of interest. SMERA is the country's first Rating agency that focuses primarily on the Indian Micro, Small and Medium Enterprise (MSME) segment. This would facilitate greater and easier flow of credit from the banking sector to MSMEs. SMERA has also been registered under Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999 making it only the sixth rating agency in India to rate issues such as IPO, bonds, commercial papers, security receipts and others. The Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) has awarded SIDBI with "Outstanding Development Project Award" for setting up SMERA. SME Rating Agency of India Ltd. (SMERA) has undertaken an initiative to facilitate their customers to make payments using the National Electronic Funds Transfer (NEFT)/ RTGS platform of Reserve Bank of India.

India SME Asset Reconstruction Company (ISARC) - It is set up in April 2008, ISARC's objective is to acquire NPAs and strive to maximize recovery value through innovative resolution methods. It also complied with the conditions stipulated by RBI while granting the Certificate of Registration as an ARC and became fully operational from April 15, 2009. ISARC vision is to become the leading Asset Reconstruction Company which would unlock the idle NPAs lying in the Financial Sector, including Banks/FIs, with a focus on the NPAs in the MSME sector, for their productive use by resorting to innovative resolution mechanisms of NPAs. ISARC endeavors to unlock the idle NPA assets for productive purposes which would facilitate greater and easier flow of credit from the banking sector to the MSMEs.

SME Financing and Development Project (SMEFDP) - SIDBI is implementing a World Bank-led multi agency / multi activity Project on Financing and Development of SMEs. 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 GTZ Germany are the international partners in the Project. The Project is aimed at making SME lending an attractive and viable financing option as also facilitate increased turnover and employment in the sector. In order to achieve its aims, the Project, besides upgrading direct flow of credit to SMEs, 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 utilized 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:a. Credit facility from the IBRD and KfW Germany b. A Risk Sharing Facility c. Technical Assistance from DFID , UK and GTZ, Germany.

Credit Appraisal and Rating Tool (CART)- Small Industries Development Bank of India (SIDBI) released the Credit Appraisal and Rating Tool (CART), a comprehensive software tool for enabling quick appraisal and rating of SME credit proposals in an automated workflow environment to be used by banks and other lending institutions. The user-friendly software, developed by SIDBI, has been in operation for past three years and has contributed to significant reduction in credit dispensation time in the bank. With a view to extending CART to other banks and financial institutions, SIDBI has developed a separate web-based version of the software. CART has two menu-driven modules for Appraisal and Rating. The appraisal module covers analysis of all the relevant aspects of a credit proposal viz. Management, Financials, Industry, Market, KYC norms, etc. These are presented in a user friendly manner, guiding the Credit Officers working in a bank through the entire process in a technology based package. CART essentially aims at helping in prudent decision making on support-worthiness of credit proposals and pricing of the loan. The software also has the facility for undertaking re-rating of proposals. CART is aimed at serving as an effective tool for quick appraisal and qualitative rating of credit proposals and offering an efficient credit delivery to SME customers. This feature-rich software would enable banks/FIs to undertake faster, yet comprehensive appraisal and rating of the proposals, with recommended pricing band. The new CART which is IT platform independent, is expected to consider loan proposals upto Rs.1 crore. This would also bring standardisation and transparency to the credit decision process, thereby considerably reducing the time for processing of proposals.

SME Growth Fund. The fund has a targeted corpus of Rs.500 crore with a life of 8 years. It is is registered with Securities and Exchange Board of India (SEBI) as a Venture Capital Fund and has been structured as a unit scheme to make primarily equity or equity-related investments in the growth oriented businesses having significant business activity in India. The Fund seeks to achieve attractive risk-adjusted returns for its contributors through long-term capital appreciation. It will focus at wide range of growth sectors, such as life sciences, retailing, light engineering, food processing, information technology, infrastructure related services, healthcare, logistics and distribution, etc. The Fund will typically invest in companies at early stage as well as in second round financing for those with a track record of proven technology or business model and opportunities for growth and earnings.

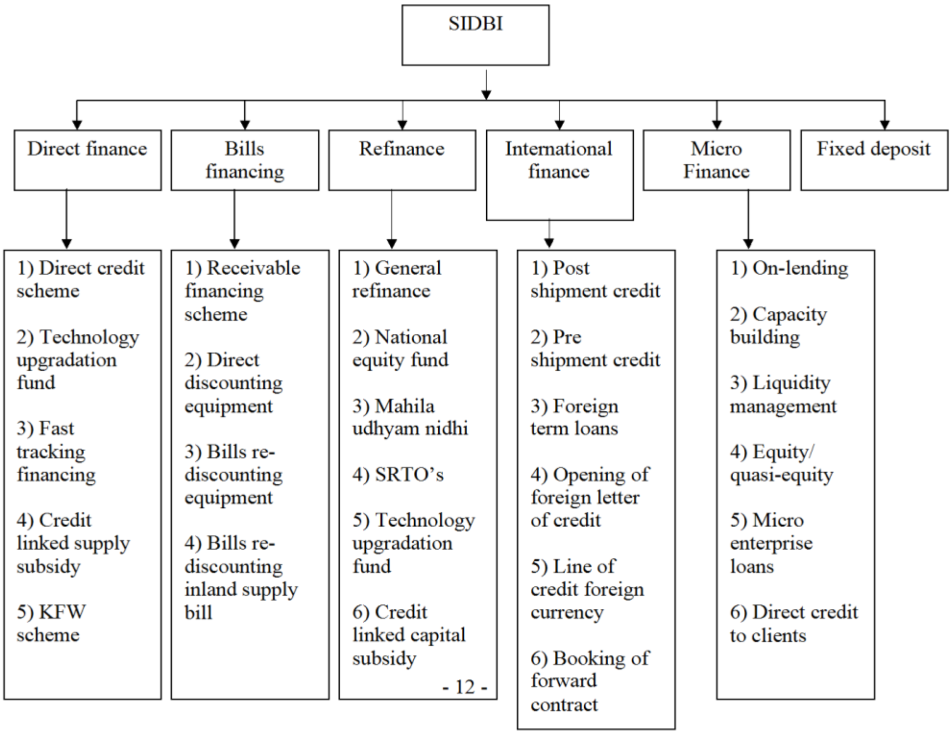
Mutual Credit Guarantee Fund Scheme (MCGFS) - The Small Industry Development Bank of India (SIDBI), together with other nationalized banks in collaboration with UNIDO flagged off a Mutual Credit Guarantee Fund Scheme (MCGFS). MCGFS proposed to make credit facilities available to small enterprises without collateral securities. This would develop better banking habits among them, build more cordial relationships between banks and SMEs, and eventually change the attitude of banks towards them and among themselves. The scheme was conceptualized by UNIDO and SIDBI, based upon a model developed in Italy.

India SME Technology Services Ltd - India SME Technology Services Limited (ISTSL), set up in November 2005, provides a platform for MSMEs to tap opportunities at the global level for acquisition of modern technologies. ISTSL continues to pursue its strategy of rendering technical services for technology transfer and promotion of energy efficient, environment friendly technologies in the MSME sector. Efforts are being made to facilitate reduction in Green House Gases in the MSME sector. In order to strengthen and accelerate the process of technological modernization in the MSME sector, ISTSL has entered into partnership with various national and international organizations engaged in similar activities. ISTSL took up the project for implementing Energy Efficient technologies in Stainless Steel Re-rolling Cluster of Jodhpur, in association with KfW, Germany. The project is now being taken up for implementing Clean Development Mechanism (CDM) project by implementing Energy Efficiency measures, which are expected to generate CDM revenues, besides reducing the cost of fuel being consumed by the units.

Angel Investor- Angels are typically high net worth individuals who wish to invest some of their surplus funds in new ventures. They can prove to be a good source of capital and advice at an early stage in the development of the company. For the investor, they bring opportunity to make high returns from investing at an early stage in an MSME. The problem areas are unwillingness of MSME to bring in an external investor in case of equity sale, the high risk for investor and risk of relationship between the investor and the MSME manager breaking down. Angels are typically high net worth individuals who wish to invest some of their surplus funds in new ventures. Often, the individuals concerned are highly motivated entrepreneurs who have considerable experience of running their own companies. In many cases they also are networked with the entrepreneur either through family or friends' networks. It is a good source of capital. For the investor, it is the opportunity to make high returns from investing at an early stage in an MSME and for public authorities, angel schemes can increase the supply of risk capital and advice at little cost to public funds.

India Development Gateway - It is an online capital marketplace. The India Development Gateway is an incubation of Intellecap that aims to collapse transaction costs for businesses requiring investments under USD3 million by improving entrepreneurs' interaction with an emerging investor class. Through its MSME online capital marketplace, IDG provides entrepreneurs a targeted collection of resources, access to mentors and experts and connections to the right investors. IDG is an initiative housed within Intellecap, a leading social investment advisory firm in India. The competition running on IDG’s online platform aims to increase investments in, and build the capacity of socially relevant MSMEs in India’s fast growing social and environmental sectors. The India Development Gateway (IDG) is an easily browsable website rich with information that helps entrepreneurs improve their concept and connect to an online community of mentors, experts and investors for networking. It has announced the launch of its first nationwide MSME (micro, small and medium enterprise) business plan challenge- *Sankalp* 2009 **.** Its aim is to link finance and expertise to business opportunities, and make high potential, socially relevant investable plans visible globally through the IDG platform. It is an effort to build that ecosystem that provide professional and consistent services using ICT tools. This will not only identify businesses with high potential for investment, but will provide a platform to explore emerging ideas, new markets and new ways of investing. While giving the feel of a realistic investment process, Sankalp will also expose entrepreneurs to a bouquet of services that would help make their ventures more ready for strategic investments.

Details about product & Services segment wise



Issues of SME Financing

As every coin have two sides. In spite of all the efforts by government, small scale industries are reluctant in using these innovative financing techniques. The various problem faced by SME's when trying to obtain funding are -

- They are unable to capture market opportunities, which require large production facilities and thus could not achieve economies of scale, homogenous standards and regular supply.
- They are experiencing difficulties in purchase of inputs such as raw materials, machinery and equipments, finance, consulting services, new technology, highly skilled labor etc.
- Small size hinders the internalization of functions such as market research, market intelligence, supply chain, technology innovation, training, and division of labor that impedes productivity.
- Emphasis to preserve narrow profit margins makes the SMEs myopic about the innovative improvements to their product and processes and to capture new markets.
- They are unable to compete with big players in terms of product quality, range of products, marketing abilities and cost.
- Absence of a wide range of Financing and other services those are available to raise money and sustain the business.
- Absence of Infrastructure, quality labor, Business acumen and limited options / opportunities to widen the business.
- Poor IT and Knowledge infrastructure.

VI. Conclusion

Ensuring adequate availability of finance to SMEs and effective coordination among various support institutions and banks is important for the healthy development this sector and thus, for the economy of the nation. The social contribution made by SMEs is even more significant than its economic contribution. Within the SME sector, the small sector serves as a seed-bed for nurturing entrepreneurial talent and originating units to eventually grow into medium and large enterprises. The promotion of SMEs, therefore, becomes a major area for policy focus. The regeneration of SMEs must receive public support particularly for village, cottage and micro level enterprises. In this regard, the adoption of various financing techniques by SMEs can help in its growth and development. They should not be reluctant and hesitate in using the newest and beneficial financing techniques.

Bankers are reluctant to extend credit to this sector due to risk aversion. But unless the Banks come forward with timely and innovative finance scheme, the SME sector which is already facing problem cannot survive. Moreover, majority of SME units are a profitable portfolio for the banks. SMEs should adopt a market oriented approach, explore and utilize alternative source of finance, enhance managerial skills and knowledge on global markets by employing skilled professionals specialized in these areas. Special emphasis is to be given on training, R & D related activities, promoting innovations and protect cash rows. It is being noted that a compulsion under priority sector to finance to this sector, is a business opportunity for banks. It is worth noting that the current banking infrastructure, utilized for credit cards and ATMs, can be extended to SME financing. The system of SME financing is fundamentally similar to that of credit cards—hence the use of the processes and distribution networks is possible.

Notwithstanding the fact that governments of developed and developing countries have taken various initiatives, and, on regular intervals have provided support, however, still a lot needs to be done. For SMEs surely development plays a huge role, conceivably, involvement should not be led behind. By involving SMEs opinion at various fronts, make them more eager to learn vis-à-vis various other aspects, which by and large, create interest among SMEs to venture new projects leading to growth of a sector, state, a country and its respective economy. Similarly, innovative developments such as micro credit, SME credit-rating mechanisms and SME portfolio securitization are leading the way towards a more robust system. Of importance is that most small enterprises in India do not have a corporate structure, but are partnership or proprietorship concerns. Corporate structuring allows greater transparency of financial and other information to outsiders, including lenders. Therefore, it is essential that SME sector in India adapt itself to corporate discipline. Thus, a two-sided approach involving innovative lending from the financial sector, and better corporate governance systems in the SME sector can lead to a growing flow of financing.

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