

Need Based Funding to Micro, Small and Medium Enterprise Sectors : A Practical Approach

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The main purpose of this paper is to highlight the need based funding on micro, small and medium enterprise sectors (MSMEs) with particular reference to manufacturing sectors in India. MSME sectors worldwide are considered as the growth engine of an economy and are emerged as the driving force in transition economies. The industrialization not only depends on the large corporate groups, it also requires establishment of small and medium enterprises for its growth and employment. In the context of current trends in trade liberalization and increased globalization of production, small and medium enterprises have to survive in more competitive environments.

The Indian government had been using public enterprises to undertake initial investment and production in heavy industries, where private capital was reluctant to enter at the early period due to the high risks. Industrial organisations suggest growth paths for MSMEs that go well beyond the simple survival and employment generation strategies, associated with the informal sectors and traditional SME development policies of our nation. The methodology of the study is based on the analysis of the differences in policies and their effects on the SMEs in subsequent periods will be investigated as well.

Key words: Globalization, industrialization, liberalization, sustaining, transition

Introduction

“...we pass through three major stages in our lives: a time to learn, up until the age of twenty; a time to expand, between twenty and forty; and a time to grow wise, from forty onwards.....”

Bernard Lievegoed (1979)

An entrepreneur is the key figure in the process of economic growth in the country. He is an economic man who tries to maximize his profits by innovations. He is an organiser and speculator who is doing new things or doing things that is already being done in a new way. He is a key man who envisages new opportunities, new techniques and new line of production and coordinates all activities. Entrepreneurship is a creative human act involving the mobilization of resources from one level of productive use to a higher level of use. Entrepreneurship involves a willingness to take responsibility and ability to put mind to a task and see it through from inception to completion. Another ingredient of entrepreneurship is sensing opportunities, while others see chaos, contradiction and confusion.

An entrepreneur invests, hence he has to face risks, an entrepreneur is ambitious, so he has to be careful and an entrepreneur wants to stay in the business, hence he should have knowledge, skill and foresight. India has a long entrepreneurial tradition, which is helping the economy by utilizing the resources at micro level. An entrepreneur is the key figure in the

process of economic growth in the country. He is an economic man who tries to maximize his profits by innovations. The quality of entrepreneurship existing in any region determines to a large extent the development of that region. Entrepreneurship is receiving greater attention from policymakers and experts in developed and developing countries. New dynamic enterprises contribute to economic development in several ways: as an important channel to convert innovative ideas into economic opportunities, as the basis for competitiveness through the revitalization of social and productive networks, as a source of new employment and as a way to increase productivity. The importance of entrepreneurial commitment as a crucial input to national development has now been widely recognised. With growing emphasis on the role of medium and small scale enterprises in view of their contributions to employment generation, regional development and economic growth, a wide range of schemes and programmes have been devised in many developing countries aimed at accelerating the tempo of such.

Literature Review

The Micro, Small and Medium Enterprises (MSME) sector has been an integral component of the industrial sector. The MSE sector has been accorded special status and importance in the Five-Year Plans since inception in view of the advantages it offers for better utilisation of resources of capital and skill at the local level. The continuous support provided to the sector in the form of incentives, infrastructural facilities and other assistance

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in the industrial policy resolutions has facilitated the sector to acquire a place of prominence in the socioeconomic development of the country. The number of enterprises in the MSE sector is estimated to be over 13 million, providing employment to estimated 42 million persons. As per the latest estimates, the micro and small enterprises (MSE) sector accounts for about 39 per cent of the manufacturing output and 33 per cent of the national exports of the country (the estimated contribution is 45% and 40% respectively for the micro, small and medium enterprises (MSMEs) as defined under MSMED Act, 2006). Further, in recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector (Rai, 2009).

The micro, small and medium enterprises (MSMEs) have an important place in the Indian economy and the downfall in the economy will affect this sector as well. It is the crucial phase that demands that the entrepreneurs should focus more on the survival and development of their enterprises. In fact the problems of over production with low marketability and export have necessitated increased attention to be paid in MSME sector with the ongoing global crisis, which needs a focused attention by the entrepreneurs at intra firm level. The entrepreneur needs to focus on ways and means for not only to reverse the negative effect of the crisis in short run but also chalk out the long-term plan to meet the challenges of the coming time from manufacturing to marketing in an integrated manner (Mehta, 2009).

Entrepreneurship development is not just a function of capital and technology but is greatly accelerated when a package of services like training (management, skill and entrepreneurship), project profiles, consultancy, marketing and export assistance, economic information and technical services are provided. Today, Micro, Small and Medium Enterprises (MSME) contribute about 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of our exports. The labour and capital ratio in MSME and the overall growth in the MSMEs are much higher than in the larger industries (Gupta, 2010).

Majority of the MSME units lack dimensions and motivation arising out of information gap about benefits of existing policies and procedures; keep track of changes occurring in policies and procedures; availability of adequate financial resources; market intelligence, ways and means of promotional activities to cater to a broad customer base; weak linkages with the technology providers and utilize technical facilities at available S & T infrastructure created by the Government. They are unable to harness their competitive strength to avail of unfolding opportunities emerging as a result of globalization (Sareen, 2010).

Methodology

It is a universal fact that for the development and prosperity of country, industries are its back bone and micro, small and medium enterprises. During the period before the independence of our country, there were no major industries except the iron and steel industries established by the Tatas at Jamshedpur (Jharkhand State) and a few others which could be counted on the finger tips. After the country became independent, Pt. Jawaharlal Nehru, the first Prime Minister of the country visited the then USSR, United States of Soviet Republic – the most powerful and richest country in the world of that period and he could surmise that the potential growth and development of that country is mainly due to its industrialization under the Five Year Plans and visualized that our country, India can also prosper by following the same programme. Thus the Five Year Plans were introduced in the country. Eleven nos. of Five Year Plans have since been executed during the past 55 years and now the 12th Five Year plan is in operation. On account of the planned implementation and systematic execution of the development programme, our country today after 60 years of independence has been transformed from that of a poor under developed country to that of a powerful developed country attaining self-sufficiency in all the fields of industries, nuclear, scientific research, education, irrigation, electricity power, health and education. The various types of enterprises in India are classified into the following categories:

Types of Enterprises:

	Investment ceiling for Plant, Machinery/Equipment	
	Manufacturing Enterprises	Small Scale Service & Business Enterprises
Micro	Upto ` 25 Lakh	Upto ` 10 Lakh
Small	More than ` 25 Lakh upto ` 5 Crore	More than ` 10 Lakh upto ` 2 Crore
Medium	More than ` 5 Crore upto ` 10 Crore	More than ` 2 Crore upto ` 5 Crore
Large	Above ` 10 crore	Above ` 5 crore

Motivation theories and Abraham Maslow's Hierarchy of Needs

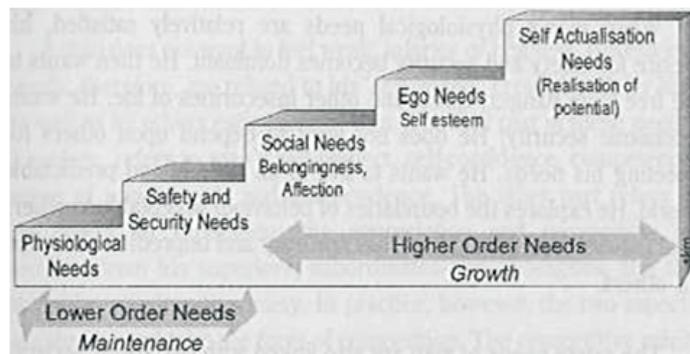
Abraham Maslow developed the hierarchy of needs model in 1940-50's in USA, and the hierarchy of needs theory remains valid today for understanding human motivation, management training and personal development. Indeed, Maslow's ideas surrounding the hierarchy of needs concerning the responsibility of employers to provide a workplace environment that encourages and enables employees to fulfill their own unique potential (self-actualization) are today more relevant than ever.

Motivation is the psychological feature that arouses an individual to action towards a desired goal. Motivation can also be the reason for an individual's action or that which gives purpose and direction to behavior. In other words, motivation is an incentive that generates goal-directed behavior. Over the last 80 years there have been many theories developed to describe,

how and why people are motivated to work. In the post-war period the key influence has been Maslow's hierarchy of needs theory developed in the early 1950s. This approach set the differing needs of all human beings in order of their importance, the first level needs having to be satisfied, at least to a minimum level, before one can proceed to the next stage. Maslow's theory is based on the following premises:

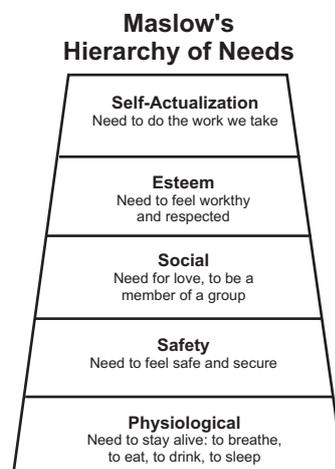
Man is wanting being; Human wants are unlimited. When one need is satisfied, another arises. This process is unending and it continues from birth to death.

- Man's behaviour is motivated by unsatisfied needs. The need which is satisfied no longer serves as a motivator of behaviour.
- Man's needs are arranged in a hierarchy of importance. As soon as needs at the lower level of hierarchy are satisfied, those at the higher level emerge and start demanding satisfaction. A graphical presentation of the hierarchy of needs postulated by Maslow is given below:



1. **Physiological needs:** These relate to the basic needs required to maintain life such as food, drink, oxygen, sleep, shelter and warmth. Obviously all human beings will seek to satisfy these at a basic level before proceeding upwards.
2. **Safety and security needs:** These are concerned with protection and security from external dangers. In the most basic sense, these relate to the protection of life although other elements become important in a work environment such as job security and physical safety. These latter needs are less categorical and do change from time to time.
3. **Social needs:** These relate to the feeling of belonging, being part of the work group with support and friendship from those one who works with or at home with one's family and friends.
4. **Self-esteem or ego needs:** These are the requirements for self-confidence such as competence in work and the desire to perform well and be seen to do so. Recognition from others is an important element of this need.
5. **Self-actualisation needs:** This area relates to intellectual

needs which can include the knowledge and understanding of one's position, the need for self-development and for aesthetic requirements such as art and music. It can also be the satisfaction that people achieve in reaching their potential and knowing that they are undertaking good work.

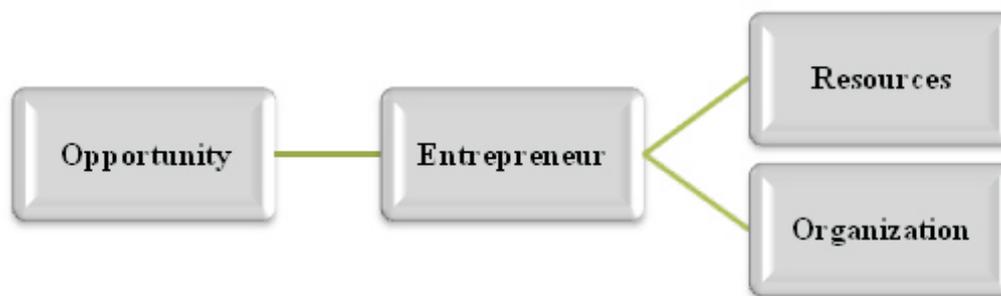


Although Maslow believes that each level needed to be satisfied before moving onto the next level, this satisfaction may only be to a basic degree. For instance, a person's requirements for physiological needs may increase from peer pressure and through the ability to develop a higher standard of living.

The Entrepreneurial Process:

An entrepreneur is the key figure in the process of economic growth. He is an economic man who tries to maximize his profits by innovations. He is an organizer and speculator who is doing new things or doing thing that is already being done in a

new way. Entrepreneur is the individual who lies at the heart of entrepreneurial process that is the manager who drives the whole process forward. The entrepreneurial process consists of opportunity, resources and organizations. Opportunities are the potential to serve customers better than they are being served at present. Resources include the money invested in the venture, the people who contribute their efforts, knowledge and skills to it etc. Organization consists of number of factors such as their size, their rate of growth, the industry they operate and the types of product they deliver etc. A model of the entrepreneurial process is mentioned below:



Concept of 3'es: Entrepreneurship, Entrepreneur, Enterprise:

Entrepreneurship and the entrepreneur, is at the core of what makes an enterprise succeeds, whether we call it an entrepreneurial firm, a small business, a family business, a home-based business, or a new business. He is the kingpin of the business who conceptualizes, builds and manages a business enterprise. It is only the diligent effort of the entrepreneur, which will make our society aspire for a happy and prosperous tomorrow. A successful entrepreneur always stands out with innovative, groundbreaking ideas. Entrepreneurship cycle consists of 3'S i.e. stimulation, support and sustaining. Stimulation indicates that entrepreneurs are born and they cannot be made or trained. But in the ever-changing business, it has now changed that entrepreneurs can be made and not born. Stimulation includes proper training and guidance, which helps an entrepreneur to excel in his performance. Supports are the assistance from the registration of a unit up to the marketing, which includes proper infrastructure with adequate quantity, quality and reliability. Sustaining includes the promotion, expansion, modernization, diversification, consultancy, policy measures, reservation of items etc. For entrepreneurship development it requires to balance the above elements of the entrepreneurial cycle.

Findings

New Trends of Business Plan- Role of Entrepreneur

A business plan is an essential tool for the entrepreneur. It represents an investment in the venture. It must be justified as an

investment that is in terms of the return it offers the business. In order to accept the plan as a tool for the business it must have four mechanisms by which a business plan might aid the performance of the venture:

By working as a tool for analysis:

Every business plan contains some information, which are used as a basis for articulating and refining the entrepreneur's vision. It is providing a checklist of all information, which would be achievable as well as rewarding.

By working as a tool for synthesis:

After the collection of data, they are analyzed for achieving the target of the venture. Information must be integrated and refined so that it would definitely give support to the entrepreneur.

By working as a tool for communication

Every business plan is particularly important as a tool of communicating with potential investors, gaining their interest and attracting them to the venture. Communication helps an entrepreneur to maintain the relationship with the whole world.

By working as a call to action:

Every business plan is a call to action. It is providing an opportunity to perform the tasks as per the planned schedule. The four steps help an entrepreneur to achieve success in the venture. The relationships among the four steps are:

Methodology And Data Analysis:

MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In India, MSMEs are the second largest source of employment after agriculture. They account for almost 40 per cent of industrial production, 95 per cent of the industrial units, 34 percent of the exports and manufacture over 6000 products. It is estimated that to create one job in the MSME sector, only 72,000 is required as against 5.5 lakh required in the large organised sector.

In India too, the MSMEs play a pivotal role in the overall

industrial economy of the country. MSMEs in India account for more than 80% of the total number of industrial enterprises and produce over 8000 value-added products. It is estimated that in terms of value, the sector accounts for 45% of the manufacturing output and 40% of the total export of the country and employs over 6 crores people.

The methodology adopted in preparing this report is based on the data published by the micro, small and medium enterprises annual report about the production and credit facilities provided to the industries. Following are the information collected in consideration of performance of micro, small and medium enterprises in units, investment, production, employment and exports.

Table-1 MSMEs performance: Units, Investment, Production, Employment and Exports:

Year	Total MSMEs (Lakhs)	Fixed investment (Crores)	Production (Crores)		Employment (Lakh persons)	Export (crores)
			Current prices	Constant prices		
2002-2003	109.49 (4.07)	162317 (5.16)	314850 (11.54)	306771 (8.68)	260.21 (4.36)	86,013 (20.73)
2003-2004	113.95 (4.07)	17029 (4.87)	364547 (15.78)	336344 (9.64)	271.42 (4.31)	97,644 (13.52)
2004-2005	118.59 (4.07)	178699 (4.98)	429796 (17.90)	372938 (10.88)	372938 (4.11)	124,417 (27.42)
2005-2006	123.42 (4.07)	188133 (5.27)	497886 (15.83)	418884 (12.32)	299.85 (4.44)	150,242 (20.76)
2006-2007	128.44 (4.07)	213219 (8.68)	585112 (17.53)	471663 (12.60)	312.52 (4.23)	177600 (24.54)
2007-2008	133.68 (4.08)	238975 (12.08)	695126 (18.80)	532979 (13.00)	322.28 (3.12)	202,017 (10.67)
2008-2009	285.16 (4.53)	621753 (11.39)	880805 (11.39)	NA	659.35 (5.35)	NA

Source: Annual report of Ministry of Micro, Small and Medium Enterprises, 2009-2010

Table-2 Role of Banking Sector in Development of MSMEs

As on March	Public sector Banks	Private Sector Banks	Foreign Banks	All scheduled commercial Banks	Percentage of MSE credit to Net Bank Credit
2005	67,800	8,592	6,907	83,498	9
2006	82,434 (21.6)	10,421 (21.3)	8,430 (22.1)	101285 (21.3)	7.5
2007	102,550 (24.4)	13,136 (26.1)	11,637 (38)	127,323 (25.7)	7.2
2008	151,137 (47.4)	46,912 (257.1)	15,489 (33.1)	213,538 (67.7)	11.6
2009	191,408 (26.6)	46,656 (-0.5)	18,064 (16.6)	156,128 (20)	11.4
2010 (p)	278,398 (45.4)	64534 (38.3)	21,069 (16.6)	364,001 (42.1)	13.4

Source: Annual report of Ministry of Micro, Small and Medium Enterprises

Table-3 Production and Credit assistance to MSMEs

Year	Production (Crore)	Credit to MSME Sector (Crore)
1996-97	167805	38196
1997-98	187217	45771
1998-99	210454	51679
1999-00	233760	57035
2000-01	261297	60141
2001-02	282270	67107
2002-03	314850	64707
2003-04	364547	71209
2004-05	429796	83498
2005-06	497886	101385
2006-07	585112	116908

Source: Annual report of Ministry of Micro, Small and Medium Enterprises

Data Analysis

The data of credit to MSME by all the scheduled banks and the production data of MSME for ten years i.e. 1996-97 to 2006-07. The data were input into SPSS and the Pearson's Correlation Coefficient was calculated. It was found that there is highly significant relationship between the two variables. Thus

we can conclude that if there is an increase in credit to MSME Sector, the production of the MSME sector is going to increase. Thus bank credit plays an important role in deciding the production of the MSMEs. The output of the analysis is given below:

Table: 4 Performance of Private Banks in India during the study period of 2006 to 2011

		Production	Credit
Production	Pearson Correlation	1	0.989**
	Significant(2-tailed)		0.000
	N	11	11
Credit	Pearson Correlation	0.989**	1
	Significant(2-tailed)	0.000	
	N	11	11

** . Correlation is significant at the 0.01 level (2-tailed).

Limitations

The data of Production and Credit assistance to Micro, Small and medium enterprises are taken during the period from 1996-97 to 2006-2007.

Discussions

Following are the few recommendations:

1. Proper credit appraisals of the loan application form must be scrutinized to appraise the technical feasibility, economic viability and bankability including credit worthiness of the prospective borrower.
2. An entrepreneur must be given a chance to express his/her views before the loan sanctioning authority rejecting the loan application form.
3. Joint appraisal of the loan application form should be conducted by the concerned bank and District Industries Centre.
4. The personal relationship between the banker and the entrepreneur is much more important than the name of the bank. The entrepreneur and the banker are clearly in an interdependent relationship—the banker is the primary provider of debt capital to smaller firms and the entrepreneur is a major source of business for banks.
5. The project cost should be decided by the market not by the individual banker as the bankers have no engineering background to assess the project.
6. Project finance is based on available collateral only. Markets and other considerations are not taken into account.
7. Undue reliance is not to be placed on the collateral security for the repayment of loans.
8. According to the recommendations of the P.R.Nayak Committee, need based finance is not collateral based finance, but now-a-days all finance are based on collateral because of this there is large NPAs (Non-Performing Assets).

9. The credit manager must understand that all projects are viable on certain conditions. Rejection of any proposal should not be whimsical or on the basis of collateral consideration.
10. Proper scale (max-min) must be developed while appraising the proposal.

Conclusion

Entrepreneurs have an important effect on world economies and playing an important role in maintaining and developing to create new values. Entrepreneurship development can make significant contribution in providing employment to millions of people, generating foreign exchange for the growing economy, producing import substitutes, contributing to value addition, and utilizing the vast human and natural resources of the country. In view of the above contributions, entrepreneurship development through small enterprises has come to occupy crucial role in the economic progress of the nation. No country whether large or small, developed or developing, can underestimate the immense potential and contribution of small enterprises. It has become all the more important in view of globalization and economic liberalization. Industrialization and entrepreneurs are inseparable factors, and the crucial role of entrepreneurs needs to be highlighted in any study relating to industrial and economic development. To be successful, an entrepreneur must not only identify an opportunity but also understand it in great depth through the acquiring of various skills. As micro, small and medium enterprises are playing a vital role for the nation's development, hope that the government department, banking sectors will support the MSME to compete with world market.

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