



The Story of MSME Finance:2015

1.0. Introduction

'India MSME Report' series, over the past several years, has brought to the limelight some major facets of finance for micro, small and medium enterprises. Though with the hegemony of public sector banks, the institutional structure catering to MSME finance in India has undergone some significant changes during the past two decades. Even with such changes, the emerging challenges are rather unprecedented. If the financial system of the country fails in this mission, their very existence is likely to be questioned. The following pages are devoted to review the trend and progress of banking in India in relation to their engagement with the micro, small, and medium enterprise constituency in the country.

2.0. Finance and Development in 2015: A Macro View

Translating growth into jobs is a major developmental challenge in India today. On this, India's track record, over the years, was not satisfactory. More recently, this neglected aspect has been brought into the limelight of policy debates. The policy approach of the Union Government also has contributed for a fresh look into the relation between, growth, jobs and inclusiveness, which essentially means targeting the MSMEs. Hence,

policy makers must turn their attention to the conditions required for enterprises to take birth and grow more rapidly. For financial institutions, if they want a pie of the business so generated, they need to become active catalysts and partners of such a growth process. Besides, as corporate entities, they necessarily need to be under the public scan performing a socially meaningful role.

2.1. Recent Financing Models

SME finance is often governed and regulated under a financing model, while, the actual flow of credit to these enterprises happen through some specific financial products. These financial products are structured in order to cater to two basic characteristics of an enterprise: 1) life cycle of the unit; and 2) creditworthiness.

SME finance is a part of the general business finance market – in which capital for different types of firms acquired, supplied, costed and priced. Banks and FIs device different supply channels for Capital. They are 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. However, not all business finance is external/commercially supplied through the market. Much of the finance is internally generated by businesses out of their own

SME Finance is a Global Issue

Box No. 1

Ensuring access to financing for MSMEs is critical because of their key role in economic growth and sustainable development. According to the World Bank, ensuring unconstrained access to financing can help approximately 400,000,000 MSMEs in developing countries to significantly expand their economic opportunities, employ more people and generate additional income.

Source: ISED Small Enterprises Development

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