



EXIM BANK OF INDIA'S FINANCING TO INDIAN MSMEs ' GROWTH & DEVELOPMENT: A STUDY

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#Thanks to Prof. Abdul Aziz Ansari, Professor & Former Head, Department of Commerce & Business studies, J.M.I,
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ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) which play a significant role in economic development of a country, draw the attention of the international community. This is primarily because of the critical importance of job creation in the recovery cycle following the financial crisis of 2008-09, and the MSME's potentials in that respect. Yet, lack of access to finance is a major obstacle to their growth. Although the situation can vary from country to country and individual businesses, the financing gap for MSMEs in the developing country like India has a few well accepted causes. These include Information asymmetries, higher risks, Sizeable cost of transactions and a lack of adequate collateral. These factors can be exacerbated by institutional factors within a country. Among 133 institutes, EXIM Bank of India is one of them to provide credit and other supports to MSME sector. This article highlights the services of EXIM bank of India which are directly and indirectly helping to improve the performance of MSME sector of India globally.

KEY WORDS: MSMEs Credit, EXIM Bank, Financial services, MSMEs in India,

INTRODUCTION

The role of Micro, Small & Medium Enterprises in developing and emerging economies is undisputed and well recognized. Contribution of this sector is very significant in the employment generation in India (as a sector, MSMEs provide more employment than large firms), poverty mollification and rural development (MSMEs are capable of pushing economic reforms and modernization of local economies), and these units are considered to be the engine of growth the world over. Although this sector plays a very important role in the industrial growth and development of India, yet this sector

faces many problems and growth hindrances like high cost of credit, lack of the awareness about the government schemes, complex process to avail the credit, slow technical up-gradation etc. To cover all these problems and issues of MSME sector, there is a large institutional support system in India which includes the institutions targeting financial help and business development etc. There are 133 financial institutions encompassing public & private sector banks along with EXIM bank of India, which facilitate the many financial needs of MSME sector in India. This paper attempts to highlight the financing support by EXIM Bank of India to MSMEs.

REVIEW OF LITERATURE

Bala Subrahmanya (2004) focus' the impact of globalization on small-scale sector and domestic reforms in the MSME sector. The study stated that small & medium industry had suffered in terms of growth of units, employment, output and exports. The Researcher highlighted that the changes in the policy had also thrown open new opportunities and markets for the MSME sector. He suggested that the focus must be turned towards technical development and strengthening of financial structure of this sector in order to make it internationally competitive.

Singh et al. (2012) analyzed the performance of Small scale industry in India and focused on the changes in the policy which have opened new opportunities for this sector. Their study concluded that MSME sector has made good progress in terms of number of units, production & employment levels. The study highlights the emergence of technological development and strengthening of financial structure to boost MSMEs and to achieve growth target.

Venkatesh and Muthiah (2012) found that the role of micro small & medium enterprises (MSMEs) in the industrial sector is growing very fast and they have become a thrust area for future growth. They emphasized that development of MSME sector is essential for the economic well-being of India. The above literature highlights the various glimpse viz. performance, growth & problems of MSMEs in Indian economy and induces the need for continuous research in this field.

OBJECTIVES OF THE STUDY

1. To review the trends of export by MSMEs from India
2. To analyze the financing support of EXIM Bank of India in the growth of micro, small and medium enterprises in India.
3. To Study the key Challenges, faced by MSMEs in obtaining Credit.

RESEARCH METHODOLOGY

MSME sector mainly depends on bank finance for funding its activities that involves a good number of financial and non-financial issues. The research carried

out under the subject is based on secondary data relating to MSME Sector. The Secondary data has been collected from published reports and other data source from various sites such as Reserve bank of India, EXIM Bank of India, SIDBI, GoI, MSME and other institutions' committees' reports and the Statistical techniques like trend analysis has also been used to draw inference

ANALYSIS & DISCUSSION

A. MSME sector in India:-

MSMEs stimulate innovative ideas / business methods, and entrepreneurial skills. These units are flexible in nature and can adapt the changing market demand and supply situations very fast, these units help in diversifying economic activity, and make a significant contribution to industrial development and exports. Thus, it is not surprising that the establishment and promotion of MSME's around the world has assumed very strategic importance. Countries across the globe do not use the same definition for classifying their MSME sector. The definitions in use depend on the purposes for which they are meant, and are required to serve the policies that govern the MSME sector thus defined. Major parameters generally applied by most of the countries, either singly or in combination, in defining MSME sector may include all of any one factor from the following 1) Capital investment on plant and machinery 2) Number of workers employed 3) Volume of production or turnover of business. "In India, earlier, industrial units were based on investment ceiling on the installed plants and machinery were classified as small scale and large scale units in broad terms. Within small-scale sector, there were sub-classification such as ancillary units, tiny units, women enterprises, and small scale services and business units. The medium scale units were not earlier defined in India. However, following the enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, enterprises in India are being broadly classified into micro units, small units, medium units and large units on the basis of their investment in plant and machinery for both manufacturing and service sector separately in table 1.1 (Exim bank, occasional paper 153)

Table 1.1

Manufacturing Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten Lakhs rupees but does not exceed two crore rupees
Medium Enterprises	More than two Crores rupees but does not exceed five core rupees

Source: http://www.dcmsme.gov.in/ssiindia/defination_msme.htm

The MSME sector contributes about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. The sector is estimated to employ about 106 million persons in over 46 million units throughout the country in 2013. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. It is well known that the MSME sector provides the maximum opportunities for both self-employment and jobs after agriculture sector. MSMEs have performed well over the years. There were about 440 lakhs MSMEs in India during 2011-12 contributing to production level of ' 1790804.67 crore. According to the Fourth All-India Census of Micro-Small and Medium Enterprises (reference period 2006-07), the Number of the registered MSMEs was estimated to be 15.64lakh units. This comprises of 67% of manufacturing enterprises and 33%of services enterprises. About 45% of the units were located in rural areas. Of the total working enterprises, the proportion of micro, small and medium enterprises were 94.94%, 4.89%, and 0.17%, respectively. About 90% of the registered enterprises in the MSME sector were proprietary concerns,

about 4% were partnership firms, and about 3% were running as private companies and the balance were owned by public limited companies, cooperatives, trust etc. Share of women enterprises in total was around 14%. (Based on annual report MSME 2013-14)

B.Export Trends Analysis of India's MSME sector:

In this section, an analysis of India's MSMEs' export to the world has been done. For this purpose, the trends of MSMEs' export the period 1993- 2015 have been calculated in graph 1.1 and future Export trade is projected up to 2018 with liner trend estimation in graph 1.2. The trend has been calculated using the regression equation: $Y_c = a + bX$, This is the equation of a straight line where Y_c is the trend value of export/import and this variable depends upon independent variable X. Here X is time, a & b are constants. Constant "a" is the intercept of Y-axis and "b" is the slope of linear line. The trend of Export has been calculated from the actual export data given in Table 1.2, the equation is as:

$X_c = 234008.663 + 34671.738 t$, The model of this trend equation generated by SPSS (20) is given Table 1.2

Summary of trend equation for export during 1993-2015 (Model Summary: 1)

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients		
1	(Constant)	234008.663	28604.290		8.181	.000
	Year	34671.738	4312.259	.869	8.040	.000

Model Summary: 2

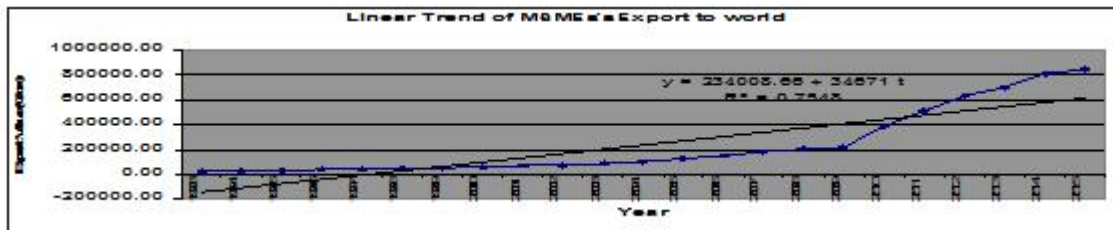
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.869 ^a	.755	.743	137181.35549	.755	64.646	1	21	.000

Table 1.2

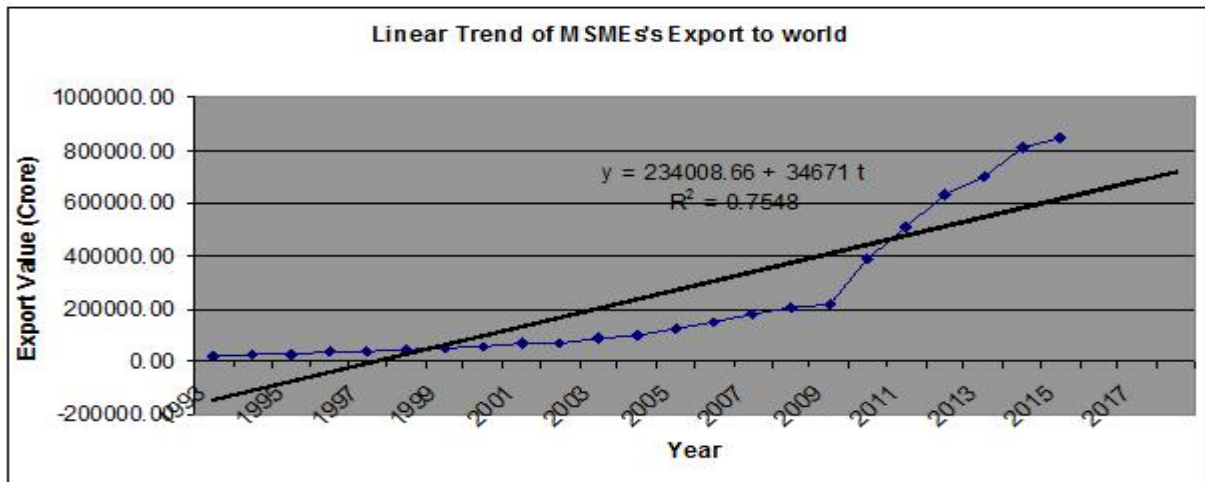
Year	Actual Export (X) (INR Crore)	Xc= 234008.663+ 34671.738 t (INR Crore)
1993	17784.00	-147380
1994	25307.00	-112709
1995	29068.00	-78037
1996	36470.00	-43365.2
1997	39248.00	-8693.5
1998	44442.00	25978.24
1999	48979.00	60649.97
2000	54200.00	95321.71
2001	69797.00	129993.4
2002	71244.00	164665.2
2003	86013.00	199336.9
2004	97644.00	234008.7
2005	124417.00	268680.4
2006	150242.00	303352.1
2007	182538.00	338023.9
2008	202017.00	372695.6
2009	214387.00	407367.4
2010	390214.79	442039.1
2011	509675.80	476710.8
2012	630362.37	511382.6
2013	702756.86	546054.3
2014	807724.70	580726
2015	847667.74	615397.8
2016		650069.5
2017		684741.3
2018		719413.0

Source: Based on data given in MSME annual report 2011-12, & <http://commerce.nic.in/eidb/default.asp>

Graph 1.1



Graph 1.2



C. Financial Support by EXIM Bank of India in the growth of micro, small and medium enterprises in India:-

EXIM Bank of India was conferred with the 'MSME Development Award 2008' by Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), for its contribution to the development of MSMEs in the country. The Bank has pioneered and nurtured the concept of international factoring and forfeiting in India, serving mainly the MSME constituent.

EXIM Bank of India seeks to create an enabling environment to promote two-way transfer of technology, trade and investments for the MSMEs, and operates a wide range of lending, service and support programs for this purpose. The Bank has a variety of loan products to cater to the financing requirements of MSMEs. The credit facilities are available for financing at all the stages of an export cycle of Indian firms. The Bank's Lines of Credit (LOC) extended to commercial banks, financial institutions, regional development banks, and entities overseas serve as a market entry mechanism to Indian exporters and provide a safe mode of nonrecourse financing option to Indian exporters. These are appropriate particularly for MSMEs. LOCs enable buyers in overseas markets to import capital/engineering goods, industrial manufactures and related services from India on deferred payment terms. Apart from LOC, the Bank offers buyer's credit and supplier's credit for exports on deferred payment terms. These facilities help companies, especially the MSMEs, to offer competitive credit terms to the buyers and to explore newer geographical markets.

Also Exim Bank introduced the Vendor Development Programme which is aimed to support development of backward linkages by exporters. Export/ Trading Houses or manufacturer-exporters with satisfactory track record and strategic plan for development of backward linkages for exports are eligible to seek finance under this programme

Export-Import Bank of India caters to the technological development of Indian MSMEs through various support services, helping them to move up in the value chain and to make them internationally competitive. EXIM Banks of India and USA had signed a Memorandum of Cooperation for facilitation of import of technology and equipment from USA by Indian MSMEs. Import Lines of Credit have been established with European Investment Bank (EIB) and Japan Bank for International Cooperation (JBIC) for import of technology and equipment by Indian firms, including MSMEs. Apart from this, Asian Development Bank has approved US \$ 100 million loan

facility to EXIM Bank for the purpose of providing medium and long term loans to export oriented MSMEs in lagging states of Assam, Madhya Pradesh, Orissa, Uttar Pradesh, Chhattisgarh, Jharkhand, Rajasthan and Uttarakhand. Sectorally, to cite few examples, EXIM Bank of India was actively involved with the National Programme for Development of Indian Machine Tool Industry (NPDMI), which was a cooperative effort of UNIDO, Government of India, EXIM Bank, and Indian Machine Tools Manufacturers Association (IMTMA). The objectives of the programme included strengthening the competitive position and technological and market development capacity of players, and in achieving high growth in CNC machine tool production, ushering in an era of e-commerce in machine tool trade, and establishing 'Made in India' label in machine tools. EXIM Bank of India served on a Steering Committee, formed through drawing expertise from various fields to guide successful implementation of the project. The programme was successfully implemented especially in supporting the sector to modernize and upgrade their production facilities, adaptation of technology and meeting internationally acceptable standards.

Facilitating technological information flow, EXIM Bank of India, under its export facilitation programme, has supported the initiative of IMTMA in setting up of the Bangalore International Exhibition Centre (BIEC). Also, under the export facilitation programme, term loan was sanctioned to Traditional Ayush Cluster of Tamil Nadu (TACT) Pvt. Ltd., for part financing the cost of setting up of a SPV for common infrastructure facilities for manufacture of AYUSH products in Sriperumbudur, Tamil Nadu. The main aim of the programme was to enhance the capacity, reduce overheads, and improve quality of AYUSH products and its packaging, thereby facilitating even small scale units to enter into export business. The cluster will have state of the art facilities for testing and analysis, product validation, safety study and manufacture. Apart from upgrading the manufacturing technology of Ayurvedic drugs, a facility is being developed for the entrepreneurs to compete in the international market, and to develop a research & development centre in the field of Indian Systems of Medicine (ISM) products, especially Siddha and Ayurvedic products. To this effect, EXIM Bank has supported this venture by part financing the cost of setting up of an SPV for common infrastructure.

EXIM Bank is one of the nodal agencies appointed by Government of India, Ministry of Textiles to establish and approve the eligibility of the project under Technology Upgradation Fund Scheme. In the food-

processing sector, EXIM Bank of India has established close relationship with technological institutes like Central Food Technology Research Institute (CFTRI), Mysore. EXIM Bank of India is promoting select food processing technologies, developed by CFTRI, for adaptation by SMEs, both in India and abroad.

EXIM Bank of India has successfully implemented a number of innovative programmes focusing primarily on MSMEs. The Bank supports strategic export development plans of companies by providing term loans towards supply side up-gradation and financial support for their export marketing activities. The programme was initially supported by the World Bank with EXIM Bank as the Executing Agency; several MSMEs from different sectors were financed for their overseas marketing activities, including acquisition of quality certification such as ISO 9001.

Based on the successes achieved in the programme implemented by EXIM Bank in India, World Bank, in fact, has sought EXIM Bank's support to share its experience with other developing countries. One of the programmes being implemented by EXIM Bank is Export Marketing Services (EMS), which is a unique service offered to Indian firms/companies helping them in their internationalization efforts and is provided across all the sectors like marine products, textiles, food processing, fruits & vegetables, handicrafts, automobiles etc. The major services offered under the EMS programme include: introducing the Indian company and its products to target country trade promotion bodies, associations, chambers of commerce, affiliates etc; assisting in negotiations with the identified partners; generating and following-up on export order; providing feedback on the product of the Indian company; building sustainable seller-buyer relationship; displaying products in EXIM Bank's offices in India and overseas; organizing Festivals/Fairs/Exhibitions in overseas markets and arranging for Buyers-Seller meetings on the sidelines of export marketing related conferences and seminars. In addition, EXIM Bank of India has also launched the Grass Roots Initiatives and Development (GRID) to create export capabilities in rural and grass-root enterprises, and thereby enhancing purchasing power of the 'bottom of the pyramid'.

D.Challenges faced by MSMEs in obtaining finance:-

RBI records show that Net Bank Credit to about 1 crore accounts in the MSME sector in March, 2012 stood at approximately Rs.5 lakh crore or 5.5% of 2011-12 GDP. If one account is equated to one unit and given that there are 3.6 crore MSME units as per the fourth census

conducted by Ministry of MSME, it appears that 2.6 crore units are still deprived of bank credit. Now if credit requirement of the deprived 2.6 crore units is assumed to be same as the 1 crore covered units, which is about Rs.5 lakhs per unit, then a broad estimate indicates that current demand of credit by MSE sector is Rs.10 lakh crore or about 9% of 2011-12 GDP as against bank deposits of about 62 lakh crore in June, 2012. With less than 40% fulfillment of credit demand and a mere 12% offloading of deposits into the MSME sector, credit inflow into the MSME sector needs to dramatically increase in order to make a significant impact on manufacturing output.. According to inter ministerial report (September 2013) of Ministry of MSME, it is needed to focus challenges like working capital finance, availability of credit, Issue of Collateral Security, Interest rate, Lack of adequate information and Easy closure and EXIT of MSMEs to improve the situation

CONCLUSION

Thus it is evident that the MSME sector is the backbone of Indian economy and will continue to be acted in the same way in future provided the government policies are made in the favor of sector' growth and development. MSME sector is a major contributor in India's exports and can be a way to enhance the export growth of the country by improving the quality standards of the MSME products and capturing more global customers. In order to compete at the international level, the Indian MSME sector needs to undergo technological and modernization initiatives as there is a big threat from countries like China, Thailand, Taiwan, Korea, etc to the Indian sector. Export competitiveness of Indian MSMEs can be promoted by overcoming the key challenges/ barriers to them, whether it is technology obsolescence, high cost of credit, collateral requirements, raw material costs, improper infrastructural facilities, lack of skilled manpower, etc. Apart from all these issues, the sector needs to get more support from financial institution specially from EXIM bank of India to get easy and low cost credit for fast and smooth export order execution so that MSMEs of India can show their valor to face and compete with the emerging nations' exporters and increase India's share in the global exports. Certain sectors need to be highly focused and can prove to be significant export earners for the emerging economy.

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