

"Without continual growth and progress, such words as improvement, achievement, and success have no meaning."

- Benjamin Franklin

## EDITORIAL

# Karnataka State Industrial Times

## Growth & Promotion of Small Industries

# is no Small Task

According to the Results Framework Document, Ministry of Micro, Small and Medium Enterprises (2011-2012), the Government of India has drawn up a twin agenda to promote growth and development of Micro, Small and Medium Enterprises (MSME). These are:

To endeavor to achieve a cumulative growth of 40 per cent in the number of registered enterprises and enhance this sector's contribution to GDP from the present 8 per cent to 10 per cent by the end of 12th Five Year Plan (2012-2017).

This could be realized through facilitation of credit flow to MSMEs; improving competitiveness of MSMEs; promotion of MSMEs through cluster based approach; marketing support to MSMEs; creation of new micro enterprises through Prime Minister's Employment Generation Program (PMEGP).

**These sound good on paper. But, what is the ground reality?**

The MSME sector is the second-largest employer after agriculture

in the country. It is responsible for 45 per cent of the manufacturing output and 40 per cent of total exports in the country, according to the 2010—2011 Annual Report of the Union Ministry of MSMEs. The sector employs 59 million people in over 26 million units in the country—about half being in the rural and semi-urban areas. These units produce over 6,000 products ranging from the simplistic to advanced hi-tech merchandise.

These statistics fail to paint a rosy picture when confronted with the stark non-availability of funds at lower rates for the sector. The Reserve Bank of India has maintained that nearly all banks have failed in giving adequate funding to the small scale sector. Also the global economic slowdown has made matters worse. Other bridling issues include lack of finding new markets or accessing new technology to improve products and finding skilled workers. Though companies with a turnover of above Rs.25 crore are capable of finding new markets for export it

is the companies with revenues of only up to Rs 10 crore who are in doldrums.

Other countries such as China, Thailand, Philippines and Indonesia have help from the administration in export promotion. Hence our Government too should lend a helping hand through favourable policies and support.

At the recently held National Award Function for MSMEs, Hon'ble President Pratibha Patil underlined the need for timely availability of credit for the growth and skill development of the sector. The government has set a formidable target for upgrading the skills of 500 million people by 2022.

### What can be done?

Patil's suggestion that a cost-effective and quality conscious 'Brand MSME' should be built up like the foundation to support a building is welcome. All stakeholders of the sector, including state governments and industry leaders, should work in tandem so that MSMEs could be supported for prolific growth.

For this to happen the sector could be helped with bank borrowing rates of seven per cent for up to Rs.2 crore loan; 8.5 per cent for small companies looking for credit of around a modest Rs 8 crore and medium enterprises can pay interest rates of around 10 per cent for substantial loans. A lot of times small businessmen are refused loans due to poor credit rating, though these entrepreneurs have no knowledge what a rating status is.

As a start—the Small Industries Development Bank of India—SIDBI's plan to support MSMEs by extending credit facilities which will allow them the option to plan capital expenditure for immovable and other fixed assets is welcome. Their Flexible Assistance for Capital Expenditure (FACE) scheme for MSMEs where subordinated debt comes to play will make the small industries life easier as it is provided on the strength of cash flows rather than asset coverage or security.

Further, up-gradation in infrastructure, technology, product development and marketing are essential to the success of MSMEs. It is good news that the ministry is proposing to create a fund to support MSME units for technology innovation.

## Photo Feature



Photo by Rakesh B. Mahadik

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<b>Web Developer</b> Lavanya. S.B	
<b>Email:</b> info@karnatakastateindustrialtimes.com sales@karnatakastateindustrialtimes.com	

### Editorial Office:

#1, Temple Road, Malleswaram, 8th Cross, B - 03 Ph: 080-2334 2334

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## Spotlight

# Loans by PSU banks to the MSME sector increases

The RBI had advised banks in June 2010 to achieve a 20 per cent year-on-year growth in credit to micro and small enterprises (MSEs) and a 10 per cent annual growth in the number of micro enterprise accounts.

### CCI SERVICE

Union Cabinet Minister for micro, small and medium enterprises (MSMEs), Virbhadra Singh, said as per RBI data, loans outstanding against the MSME sector has gone up to Rs.4,85,771 crore in March 2011 from Rs.3,75,412 crore last year. Incidentally the RBI had advised banks in June 2010 to achieve a 20 per cent year-on-year growth in credit to micro and small

Further, banks have been advised to allocate 60 per cent of the MSE advances to the micro enterprises, to be achieved in stages namely 50 per cent in the year 2010-11, 55 per cent in the year 2011-12 and 60 per cent in the year 2012-13. The Government is implementing schemes

like Credit Guarantee Scheme and Performance and Credit Rating Scheme to facilitate credit flow to the MSEs.

Since mid-March 2010, the RBI has raised the repo rate eleven times by a cumulative of 325 basis points as inflation during most part of 2010-11 and the first quarter of 2011-12 had remained persistently above the comfort level of the RBI.

Inflationary pressures have persisted due to a multitude of reasons.

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