

# Periodic Research

## Performance of MSMEs and Financing by SIDBI in Odisha



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### Abstract

The objective of the paper is to analyse the role of Small Industries Development Bank of India (SIDBI) in promotion, financing and development of Micro, Small and Medium Enterprises (MSME) in Odisha. The study is based on secondary data collected from database of SIDBI, Directorate of Industries, Odisha, Economic Survey, Odisha, SLBC data, Annual Survey of industries and other reports. More than 87% of the MSMEs are not availing any credit facility from any bank/financial institution. They are running their units either from self finance or borrowing from friends/relatives etc. This indicates the clear picture that MSMEs are not getting finance from banks/financial institutions due to stringent banking/financial norms, non-availability of collaterals, and compliance with documentation requirements. The percentage of MSMEs getting finance through institutional sources are 10.87%, from non-institutional sources are 1.05% and finance through both institutional and non-institutional sources constitute 0.84%. Financing of MSME by SIDBI is increasing over the years.

**Keywords:** Credit, Finance, MSMEs, Sanction, SIDBI.

### Introduction

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. The micro, small and medium enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable development. The labour intensity of the MSME sector is much higher than that of the large enterprises. The 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 recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. There is a consistent and continuous growth of MSMEs in our country. The MSMEs produce more than 7,500 products and also contributes to about 35% of the India's exports. MSMEs contribute 8% of the country's GDP, 45% of the manufactured output and 40% of exports. The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced and the levels of technology employed. The sector is dominated by micro units, of the total working enterprises, the proportion of micro, small and medium enterprises were 95.05%, 4.74% and 0.21% respectively. The states like Bihar, Madhya Pradesh, Odisha and Uttar Pradesh have high incidence of poverty with more than 30% head count ratio (HCR) among their populations. Rural poverty remains high at more than 30%. In this context, importance of micro and small enterprises (MSEs) in contributing to job creation and inclusive growth is widely acknowledged. The major objectives of the MSME sectors generate employment potential at low capital cost, use of local raw material and labour in rural base.

### Objectives of the Paper

The research work in this paper has two objectives as stated below.

1. To analyse the trend of number of MSME Units, investment, employment and district wise variation in odisha.

E: ISSN No. 2349-9435

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2. To investigate the role of SIDBI in financing and promoting MSME in Odisha.

## Methodology and Sources of Data

The study is based on secondary data collected from database of SIDBI, Directorate of Industries, Odisha, Economic Survey, Odisha, SLBC data, Annual Survey of industries and other reports. The statistical methods like correlation, average, standard deviation, line graphs, bar diagram and least squares trend are used for analysis.

## Review of Literature

Das S.K. (2014) has examined the performance of MSMEs in Growth and the development of socio-economic condition of rural poor and to analysis the Products of MSME. The most appropriate research tools like: ANOVAs, ratio, percentage, etc. are used to analyze the effectiveness of MSMEs in promoting the socio-economic condition of rural poor households in Odisha. The present study revealed that there is a continuous growth of number of MSME units. The growth story of these sectors enhances production, employment and exports of the state as well as in our country.

P. E. Vibhute and M. M. Bembalge (2012) analyzed the role of small-scale industries in India, to highlight on location of SSI sector. It concludes that, the small-scale industries must not look to various concessions which has been enjoying at present. Such reservation of items for executive production, Excise and income tax, concessional loans, tax concession and tax holidays as permanently available. In the final analysis all the policies and programs meant to bring about the growth of SSI would be said to have succeeded in their objective, it make this sector economically and technologically viable and see that they can successfully stand on their own feet without any concessions and support and successful compete for all types of markets.

A. Palaniappan (2010) studied that the relative efficiency of different inputs by using partial factor productivity of labour and capital for the small scale industry in India during the post liberalization period. Further an attempt has been made to estimate the influence of output and technology on factor productivities with the help of multiple regression frame work. The labour elasticity of output is found to be a more important factor than capital in terms of factor elasticity, marginal productivity and relative contribution to the output growth at India for small scale Industry. Further increase in labour productivity is attributed to capital deepening.

S. D. Kalpande, R. C. Gupta and M. D. Dandekar (2010) empirically determined the extent to which the criteria of total quality management are achieved in small and medium sized enterprises in vidharba region, of Maharashtra state in India. Scarcity resources is the main weakness of Indian small scale sector Industries. Sarkar K. K (2005) has observed that 'lack of finance' as one of the most crucial hurdles in the growth of SSIs, more so in the Eastern Region. The survey revealed that 60 per cent of the units fail due to lack of demand for products, 36 per cent due to marketing failure and 46 per cent due

to lack of adequate finance. Sudha Venkatesh, Krishnaveni Muthiah(2012) had found that the SMEs are hampered by the problems of finance, marketing etc. D.G. Rudra Murthy had stated that Developmental plans for SSIs have often floundered on the rock of inadequate finance. The small scale sector is usually unable to obtain its requirements of long term risk capital or 'equity capital' through the organised security market. The studies conducted have revealed that inadequate and delayed availability of bank finance has been one of the major causes for sickness among small scale industries. A study made by Harsh Agarwal found that the major hurdle is that the credit availability is low for MSME sector. Though credit to MSMEs fall under the category of priority sector lending, but with the expansion of the priority sector lending to accommodate fast growing areas such as home loans, education loan, the percentage share of credit to MSMEs is falling. Amitesh Kapoor(2012) mentioned that there are various financing options for SMEs but access to these funds has been difficult in spite of government initiatives. Dr. C.S Prasad found that small enterprises, due to their small size and low capital base, generally find it difficult to satisfy the conditions laid down by the banks, particularly, in establishing the viability of the project, meeting collateral requirements and making timely repayment of loans. Hence, they do not find a place among the preferred clients of the banks. Y. Srinivas(2005) has found that despite their importance to the economy, most SMEs are not able to stand up to the challenges of globalization mainly because of difficulties in the area of financing.

## Trend of Investment and Employment in MSMEs in Odisha

After 2002 the total SSI production has increased at a faster rate. There is a continuous growth in number of units, production, and employment and in exports. The majority of the population (87%) lies in rural areas in the state and is highly dependent on agriculture (73%). Rural problems are seen due to poor banking infrastructure. At this particular period MSMEs are playing important role in providing rural credit to unbanked poor and changed their socio-economic status in the state. The MSMEs are generating ample employment opportunities among rural youth in household base micro enterprises in local areas. It is on this background, the present study is important and interesting to study effectiveness of MSMEs in promoting the socio-economic condition of rural poor in Odisha. The importance in utilization of local resources to generate employment and improve living standards of people, who are not employed in large industries, agriculture and services sector, Government of India and like-wise State governments including State Government of Odisha have also started giving stress for the development MSMEs. The Micro Small and Medium Enterprises (MSME) has been recognized as engine of growth all over the country for its effective contribution to employment generation, help ensure equitable distribution of the

E: ISSN No. 2349-9435

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national income and facilitate mobilization of private sector resources of capital and skill. The growth of the MSME sub-sector is being emphasized not only because of its potential for generation of employment opportunities, but also for its contribution to industrial output in the state. The number of small scale industries and what is called MSME has been increasing overtime in the state of Odisha. The traditional industries of Orissa which are famous for its aesthetic design, vibrant color and durability are stone carving, coir, filigree work, handicraft and handloom works which are part of MSMEs. The State government provides administrative, managerial and

financial support for the revival, promotion and diversification of these traditional industries through various schemes. MSME is playing a vital role in the state of Odisha and promoting economic development by addressing three obstacles of big industrial hubs, i.e; unemployment, poverty and displacement. During 2016-17, 57783 MSME have gone into production with an investment of Rs. 3034.64 crore and 175221 persons were provided employment opportunities. It is encouraging to note that the number of MSME units and total investments therein, are increasing over the years but not significantly as may be seen from Table - 1.

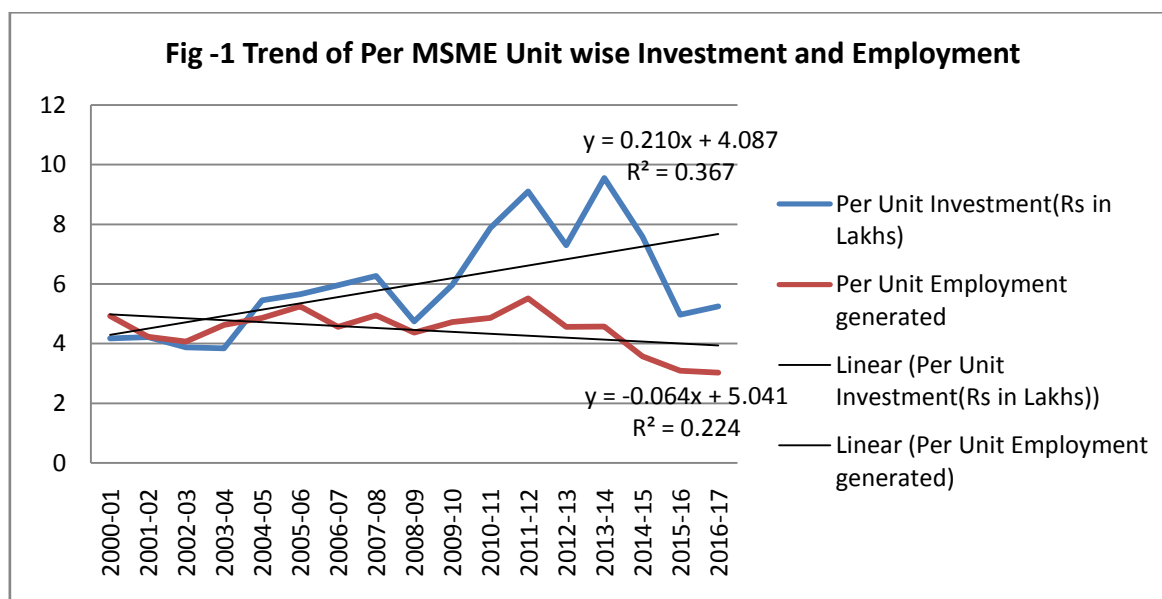
**Table 1: Investment and Employment Generation in MSMEs in Odisha**

Year	MSME Units Set up (Cumulative)	SSI/MSME units set up during the year	Investment made (Rs. in crore)	Employment generated (Persons)	Per Unit Investment (Rs in Lakhs)	Per Unit Employment generated
2000-01	66206	3676	153.18	18115	4.17	4.93
2001-02	70125	3919	165.23	16582	4.22	4.23
2002-03	74133	4008	155.14	16320	3.87	4.07
2003-04	78568	4435	170.13	20547	3.84	4.63
2004-05	83075	4507	245.59	21898	5.45	4.86
2005-06	87861	4786	270.44	25142	5.65	5.25
2006-07	92417	4556	271.14	20839	5.95	4.57
2007-08	97127	4710	295.51	23301	6.27	4.95
2008-09	101933	4806	227.92	20996	4.74	4.37
2009-10	106840	4907	292.34	23195	5.96	4.73
2010-11	111856	5016	395.02	24451	7.88	4.87
2011-12	117361	5505	500.73	30387	9.10	5.52
2012-13	123292	5931	432.90	27104	7.30	4.57
2013-14	130301	7009	669.41	32136	9.55	4.58
2014-15	160167	29866	2267.24	107011	7.59	3.58
2015-16	214087	53920	2679.64	166731	4.97	3.09
2016-17	271870	57783	3034.64	175221	5.25	3.03
Total	271870	154509	9083.83	508203	5.88	3.29

**Source:** Directorate of Industries, Odisha and Author's calculation (Col 5 & 6)

The table-1 reveals that the numbers of units of SSI/MSME are not increasing at a higher pace due to the lack of financial support and poor demand of the products. MSMEs play a very significant role in the economy in terms of balanced and sustainable growth, employment generation, development of entrepreneurial skills and contribution to export earnings. However, despite their importance to the economy, most SMEs are not able to stand up to the challenges of globalisation, mainly because of difficulties in the area of financing. With the opening up of the Indian economy, it has become necessary to consider measures for smoothening the flow of credit to this sector (Y. Srinivas, 2005)<sup>7</sup>. There are few programs which are of utmost importance in the MSME- led by technology development efforts, which promote the public private partnership. The technological development has never been a straight despite their importance to the economy; most SMEs

are not able to stand up to the challenges of globalisation, mainly because of difficulties in the area of financing forwards process. Technological innovations have been the key to the survival of the MSMEs. Four decades of planned development have elevated India to a stage, where the country demonstrates some remarkable strength in modern technologies for achieving development goals. It is also clear from the table that though the number of units is not increasing but the investment in these types of industries are increasing through the study period. So, the neglect of small enterprises is one of the most unfortunate features of Odisha's industrialisation during the 1990s. Especially at a time when even industrially advanced nations have realised the tremendous potential of this sector. The trend of per unit investment and employment are shown in figure-1.



**Employment per MSME unit has negative trend (-0.064) where as investment per unit has positive trend (0.210)**

**Table-2 Correlation Matrix**

	SSI/MSME units set up during the year	Investment made (Rs. in crore)	Employment generated (Persons)	Per Unit Investment(Rs in Lakhs)	Per Unit Employment generated
SSI/MSME units set up during the year	1.00				
Investment made (Rs. in crore)	0.98	1.00			
Employment generated (Persons)	1.00	0.99	1.00		
Per Unit Investment(Rs in Lakhs)	-0.06	0.08	-0.01	1.00	
Per Unit Employment generated	-0.85	-0.83	-0.84	0.28	1.00

**Source-** Authors Calculation

The correlation between per unit investment and employment is positive and the value is 0.28 which implies that both investment and employment increases simultaneously. But per unit employment

generation has negative correlation (-0.85) with number of MSME units established during the year. The sector wise MSME units are given in table-3.

**Table-3: Sector-wise MSME units in Odisha by the End of 2016-17**

Sector/Category	No. of units	Investment (Rs. In crore)	Employment (Persons)	Per Unit investment (in Rs Lakhs)	Per Unit employment generated
Food & Allied	35246	2018.45	179115	5.73	5.08
Chemical & Allied	3854	317.00	26980	8.23	7.00
Electrical & Electronics	1945	109.94	9917	5.65	5.10
Engineering & Metal Based	16603	1219.68	111972	7.35	6.74
Forest & Wood based	13124	200.48	61748	1.53	4.70
Glass & Ceramics	10326	752.48	148312	7.29	14.36
Livestock & Leather	619	14.58	3060	2.36	4.94
Paper & Paper Products	3940	177.18	19962	4.50	5.07
Rubber & Plastics	2066	285.99	12558	13.84	6.08
Textiles	15109	351.84	73247	2.33	4.85
Misc. Manufacturing	16450	753.87	69544	4.58	4.23
Repairing & Services	152588	7524.91	471026	4.93	3.09
Total	271870	13726.40	1187441	5.05	4.37

**Source:** Directorate of Industries, Odisha and Author's calculation(Col 5 & 6)

The repairing and services have highest investment and employment in Odisha followed by food and allied industries. But it is interesting to note that per unit investment is highest (Rs 13.84 Lakhs) in

Rubber and Plastics but per unit employment is highest in glass and ceramic industries. The descriptive Statistics is shown in table-3.

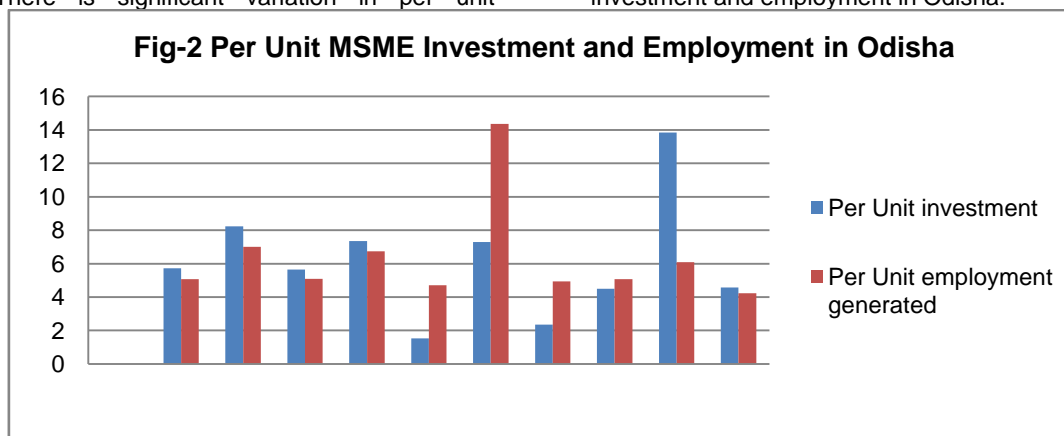
**Table- 3 Descriptive Statistics**

Statistical Measure	No. of units	Investment (Rs. In crore)	Employment (Persons)	Per Unit investment (in Rs Lakhs)	Per Unit Employment Generated
Mean	22655.83	1143.87	98953.42	5.69	5.94
Standard Error	12141.26	603.08	37576.85	0.96	0.82
Median	11725.00	334.42	65646.00	5.29	5.08
S.D	42058.57	2089.14	130170.04	3.32	2.85
Kurtosis	10.37	9.73	6.66	2.49	8.10
Skewness	3.15	3.04	2.42	1.24	2.65
Range	151969.00	7510.33	467966.00	12.31	11.27
Minimum	619.00	14.58	3060.00	1.53	3.09
Maximum	152588.00	7524.91	471026.00	13.84	14.36
Count	12	12	12	12	12

**Source-** Computed by the Authors

The average per unit investment is Rs 5.69 lakha where as per unit employment generated is only 5.94. There is significant variation in per unit

investment and employment in Odisha across different sectors. Fig-2 shows per unit MSME investment and employment in Odisha.



### District Wise Investment and Employment in MSMEs in Odisha

There are 30 districts in Odisha and coastal districts are industrially more developed than western

and southern districts of the state. Table-3 presents district wise MSMEs with employment as per SC/ST/General and women.

**Table – 3 District-wise Break-up of MSMEs, 2016-17**

District	No. of MSME Units	Investment (In Rs Crore )	Employment Generated				Employment of Women	% of Women
			SC	ST	GEN	TOTAL		
Jharsuguda	1517	12335.47	463	466	2921	3850	151	3.92
Sambalpur	3319	19961.98	2792	2902	6868	12562	4532	36.08
Deogarh	1102	2365.43	970	494	3238	4702	3131	66.59
Sundergarh	4844	41296.67	2164	4579	8723	15466	810	5.24
Keonjhar	1375	4440.6	557	1067	1739	3363	342	10.17
Mayurbhanj	2420	6715.41	1155	1671	3233	6059	1443	23.82
Balasore	2911	8378.28	2592	732	5417	8741	2496	28.56
Bhadrak	2206	7724.25	523	23	4666	5212	786	15.08
Kendrapara	1661	4903.82	610	52	3173	3835	1243	32.41
Jagatsinghpur	1100	6048.09	1196	38	1979	3213	502	15.62
Cuttack	3374	13898.27	1710	112	8805	10627	2067	19.45
Jajpur	2240	13038.95	1112	148	4813	6073	933	15.36
Dhenkanal	1482	9486.22	52	12	1636	1700	20	1.18
Angul	2325	20936.67	2337	704	4175	7216	405	5.61
Nayagarh	1241	6734.93	442	45	3383	3870	281	7.26
Khurda	3704	26387.58	668	192	12484	13344	3001	22.49
Puri	1510	4670.41	467	35	3626	4128	555	13.44
Ganjam	3134	11013.85	741	35	8194	8970	1164	12.98

Gajapati	525	2561.71	95	317	1105	1517	329	21.69
Kandhamal	1204	3460.6	1077	1080	909	3066	320	10.44
Baudh	540	2254.54	71	23	1228	1322	93	7.03
Sonepur	685	1706.88	293	31	1821	2145	61	2.84
Bolangir	2266	11334.29	1348	851	5900	8099	617	7.62
Nuapada	1008	3557.25	389	209	1370	1968	132	6.71
Kalahandi	2232	14840.73	2352	1519	5889	9760	163	1.67
Rayagada	1721	9457.17	1030	1277	2237	4544	125	2.75
Nabarangpur	1321	6819.08	1633	1512	1117	4262	20	0.47
Koraput	2201	9723.65	2329	1466	3219	7014	721	10.28
Malkangiri	315	1464.1	241	195	841	1277	11	0.86
<b>Total</b>	<b>57783</b>	<b>303463.96</b>	<b>32826</b>	<b>22656</b>	<b>119739</b>	<b>175221</b>	<b>26975</b>	<b>15.39</b>

**Source:** Odisha Economic Survey, 2014-15 & Authors calculation (Col 9)

Khurda district has highest number of MSMEs but Sambalpur has highest employment in MSME. It is very interesting to note that tribal dominated district Deogarh has highest percent of women employment (66.59 %) compared to other districts.

### Role of SIDBI in Financing and Development of MSMEs in Odisha

Small Industries Development Bank of India (SIDBI) is the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector in India as well as Odisha. Some of the major financing schemes of SIDBI are:

#### Indirect Finance

The indirect assistance in the form of refinance is provided to more than 900 PLIs comprising banks, State level FIs. The main objective is to augment the resource position of PLIs which would ultimately facilitate the flow of credit to MSME sector.

#### Direct Finance

1. Term Loan assistance
2. Working Capital assistance
3. Support against Receivables:
4. Foreign Currency Loans
5. Assistance for Industrial Infrastructure
6. Lines of Credit (Refinance) in favour of
  1. State Financial Corporations (SFCs)
  2. State Industrial Development Corporations (SIDCs)
  3. State Small Industries Development Corporations (SSIDCs)
1. SIDBI as the Nodal/Implementing Agency
2. Micro Finance

#### SIDBI's Industrial Financing in Odisha

SIDBI could maintain the growth in its credit disbursements to the MSME sector during the years. The total MSME sanction of the Bank increased to Rs.412.78 crore as on March 31, 2013 from Rs.358.26 crore as on March 31, 2012. A picture on SIDBI's sanction and disbursement over the years are given in table – 4.

**Table- 4 SIDBI's Loan Sanctioned and Disbursed in Odisha**

Year	Loan sanctioned		Loan disbursed		Per Unit Loan disbursed Amount (Rs Cr)
	No.	Amount (Rs. Cr)	No.	Amount (Rs. Cr)	
2001-2002	25	115.30	12	81.70	6.81
2002-2003	15	32.14	22	36.03	1.64
2003-2004	47	100.02	38	84.51	2.22
2004 – 2005	48	138.05	39	104.09	2.67
2005 – 2006	58	106.01	50	74.72	1.49
2006 - 2007	29	26.92	25	54.61	2.18
2007 – 2008	56	107.67	49	98.90	2.02
2008 - 2009	80	217.07	60	198.84	3.31
2009 – 2010	124	346.09	126	322.90	2.56
2010 – 2011	150	215.81	146	192.07	1.32
2011 – 2012	303	358.26	302	296.33	0.98
2012 - 2013	318	412.78	320	404.56	1.26
2013- 2014	191	458.91	175	458.47	2.62
2014 – 2015	161	408.37	139	391.24	2.81
2015 - 2016	119	294.28	108	297.24	2.75
2016 - 2017	64	161.91	50	160.37	3.21
Mean	111.75	218.72	103.81	203.54	2.39
S.D	93.37	142.33	94.94	139.28	1.45
Kurtosis	0.81	-1.29	1.17	-1.15	7.06
Skewness	1.25	0.35	1.38	0.53	2.25

**Source -** SIDBI Database and Authors calculation

E: ISSN No. 2349-9435

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From the above table -4 it is clear that the intervention of SIDBI in financing MSME is slowly increasing over the years. This is because of change in internal policies of finance, centralization of some of the products of finance at Head office level etc. Efforts have been made to enhance the promotion, financing and development of MSME sector by SIDBI. During FY 2007 till FY 2014, both the sanction and disbursements have been on increasing trend. It is interesting to note that average loan disbursed per unit is only Rs 2.39 crores with significant variation over the years. Now efforts have been made to design the products which will suit to the various needs of the MSMEs.

## Conclusion

MSMEs play a very significant role in the economy in terms of balanced and sustainable growth, employment generation, development of entrepreneurial skills and contribution to export earnings. However, despite their importance to the economy, most MSMEs are not able to stand up to the challenges of globalization because of lack of availability of adequate and timely credit, availability of raw material at affordable prices, obsolete technology, lack of proper infrastructure facility, lack of market for their product, delayed payments etc. Per unit employment of MSME is not increasing over time which is a major concern in India. With the opening up of the Indian economy to the World economy, it has become necessary to consider measures for smoothening the flow of credit to this sector. In order to address the varied problems faced by the MSMEs, SIDBI has emerged as a strong and vibrant Financial Institution for meeting with the varied problems faced by the MSMEs through its various schemes for promotion, financing and development of the MSMEs. Its mission is 'to facilitate and strengthen credit flow to MSME and address both financial and developmental gaps in the MSME eco-system'. SIDBI has devised a number of schemes catering to the financial and non-financial needs of MSMEs. SIDBI has also devised several initiatives and replicable models for strengthening the MSME ecosystem. However, the performance of SIDBI is not very much satisfactory as evident from loan per unit of MSME. It is suggested that the MSME needs to be promoted by the Government through higher investment and

employment. SIDBI should simplify its loan procedures, devise more financial products and finance more and more MSMEs in Odisha.

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