Title: **“Indian Banks: Its Lending Scenario for SME Sector”**

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Abstract

Financing is essential at every phase of a business life cycle. Right from the inception to expansion, finance is a vital component. It has been observed quite often that businesses with tremendous growth potential fails to gain strong foothold due to paucity of both long-term and short-term sources of finance.

India being one of the fastest developing economy of the globe and going by the estimates of World Bank, which states that India will grow by a robust 7.8 percent in 2016 and 7.9 percent in the next two years, it is crystal clear that India is all set to scale astral heights. But ascending the heights of economic growth is only possible when there is a holistic growth, wherein the small and medium enterprises sector have to play a vital role. But they can only give their best when they are provided with adequate financial succour. In view of this, it is of paramount academic and research interest to delve deep into the financial assistance provided to SME Sector of India.

Keywords:**Growth of SME Sector; Financial constraints of SME Sector; Banks approach towards SME lending; Regulations / Laws governing SME Lending; Indian business environment- Stimulating or Stifling SME Growth.**

JEL Classification: Financial Institutions and Services (G2)

Full length paper

Prologue – Growth of SME Sector in India

Small and Medium enterprises play a crucial role for the growth of Indian economy by contributing approximately 45% of the industrial output, 40% of exports, creating 42 million in employment, generating one million jobs every and manufactures more than 8000 quality products for the Indian and international markets.

Numbering more than 48 million, SMEs have witnessed a stable pace of growth at 4.5% in last some years. However, funds focusing on SMEs are facing bottlenecks in raising money, among other challenges. The truth is that despite the fact that this sector plays a crucial role in providing an impetus to the overall GDP, it is still ignored by the Government.

The Indian Economy is expected to grow by more than 8% per annum until 2020. It can become the second largest in the world, ahead of the United States, by 2050, and the third largest after China and the United States by 2032. However Industry experts believe this target would be difficult to achieve without the active participation of the SME sector. According to Chandrakant Salunkhe, President of the SME Chamber of India, out of the total exports in India, 43% is regards to exports from SME sector. It is anticipated that the figure will go up by at least 47-48% by 2018.

Small Industries Development Bank of India (SIDBI) offers loans to SMEs without collateral to the extent of INR 1 crore. However, many are of the opinion that the limit needs to be enhanced to INR 2.5 crore. Government is in the process of taking several measures to provide impetus to manufacturing sector, as it would assist in job creation and strengthen India’s economy. Currently SMEs share in the manufacturing sector is merely to the magnitude of approximately 7%. This is extremely essential as it possess the potential of employment generation both directly and indirectly. The Central Government has established National Manufacturing Competitiveness Council to suggest methods with the objective of enhancing competitiveness in the manufacturing sector. The Government has already announced a National Manufacturing Policy (NMP) that aims at raising the share of manufacturing to 25% of GDP by 2022. The NMP envisions the setting up of national investment and manufacturing zones, which are industrial townships, benchmarked to the best manufacturing hubs in the globe.

In India, MSMEs are in big numbers, diverse in type of business and located across the remote geographies of a vast country. A substantial portion of the MSMEs are informal and need important changes in philosophy and approach to be able to develop and deliver a new wave eco system which facilitates their development and seize the emerging domestic and global opportunities.

Review of Literature

Several studies have been carried out in area of financing SMEs. There is great role of hard data like financial information and soft data like feedback from vendors in comprehending the risk credit risk of business while lending to SMEs (Banerjee et al., 2003). A study conducted by Bhattacharya et al. (2000) have observed that banks considers SMEs as unprofitable and non-lucrative undertakings, thus have some reluctance while providing financial assistance to SMEs. Also banks consider SMEs as high risk borrowers due to their inadequate assets, high mortality rates and low capitalization. The two reasons why issue like bank competition and credit availability matters most to SMEs are as- a) SMEs are more susceptible to information related problems and b) SMEs are much dependent on banks than large enterprises (Carbo et al., 2008). A study done by Haselman and Wachet (2007) in 20 transition economies reveals that foreign banks show more proclivity towards lending of loans to SMEs, if creditor protection is robust. Also, Clarke et al. (2005) finds that some foreign banks lend more money to SMEs than domestic banks. On the contrary, Weller (1999) argues that mammoth foreign banks are not willing to lend finance to SMEs, small traders, farmers and informal sector but they lend to serve less risky undertakings, such as, transnational corporations (TNCs) and big corporate groups.

Objectives of the study

1) To comprehend financial constraints witnessed by Indian SME sector, regulatory structure and Government initiatives towards SME lending.

2) To ascertain whether there is a significant difference in the lending pattern of public sector banks, private banks and foreign banks.

Research Methodology

1) F-test (One Factor Model)- This statistical tool will help in ascertaining whether there is a significant difference or not in the lending pattern of public sector banks, private sector banks and foreign banks.

Limitations of the study

1) The study is based on secondary data.

2) There are other statistical tools also to analyze the lending scenario of banks and financial institutions to SME sector but due to certain technical constraints in this research paper only one statistical tool, i.e. F-test (One Factor Model) is used.

Financial Constraints and Regulatory / Government Initiatives towards SME Lending

Small and Medium enterprises are like growth engine of Indian economy. In view of this, Government of India has initiated numerous measures to develop the sector, like, erstwhile definition of 'Small Scale Industries' was enlarged by enhancing investment ceiling in plants and machineries from INR 1 crore and trading activities have taken in the ambit of MSMEs by enactment of Micro, Small & Medium Enterprises Development (MSMED) Act from 2nd of October, 2006. Also the act recognizes the term 'Enterprises' instead of 'Industry' to cover service in MSME segment.

In order to broaden the scope of micro and small enterprises (MSEs), the threshold of investment in plant & machinery and equipment for MSEs was recommended to enhance from the limit of INR 50 Lacs & INR 800 Lacs for manufacturing MSEs and INR 20 Lacs & INR 300 Lacs for MSE under services respectively by Nair Committee in its report dated 21st of February, 2012.

As mentioned that SME is *Gen-Next* engine of economic development and it is solution to accomplish 12th Five-Year Plan with special reference to create employment and export opportunities for the country. Also this sector possess substantial potential of banks finance for sustainable growth. But despite having growth potential, the financing barriers of SMEs can be classified into two categories- a) Reasons for SMEs being unbankable and b) Reluctance of banks towards providing credit to SMEs.

a) <u>Reasons for SMEs being unbankable:</u>

i) Small ticket size and high transaction cost

ii) Absence of entrepreneurial experience and failure in bringing promoters contribution.

iii) The magnitude of risk being high, as due to either low or no credit rating, high rate of diversions / siphoning off the funds and absence of collaterals.

iv) Weak and insufficient marketing and globally uncompetitive due to lack of product branding.

Credit guarantee in India commenced in 2000 with a well defined scheme- Central Government Guarantee against the default for loans to SMEs that are extended without any collateral, upto 75 percent of the credit loss to the lending bank. Even new enterprises in absence of performance record could avail this facility, if the proposal meets the credit requirements of the lending bank. However, even after lapsing of considerable time, most banks have not popularised this product, and are quite unwilling to freely extend collateral-free loans to SMEs.

Public sector banks have been the initiator in offering financial assistance to several MSMEs which can approach banks for loans under various schemes. The government of India has displayed robust commitment to double the credit flow to this sector in the next five years. In this regard, RBI has mandated scheduled commercial banks to attain 20% year-on-year credit growth to the MSME sector. MSMEs needing financial assistance can approach the banks for assistance as per the specific schemes constituted for various forms of financial assistance. Please refer exhibit 1 to know about the schemes offered by multiple banks. Similarly, at state level also several schemes / institute have been launched that offers various assistance to MSME sector.

With the passage of time, MSME sector have started receiving succour from another significant quarter, i.e. Venture Capital Funds. Venture capital is a means of equity financing for fast growing MSMEs. Venture capitalists provide funds after carefully dissecting projects. Venture capital basically provides financial assistance through equity-linked capital investment. It also offers mentoring support and other value addition to enable funded companies to accomplish rapid growth and attain and maintain their competitive edge in domestic and international markets. The following parameters are taken into account by venture capitalists before offering financial assistance to MSMEs-

a) Robust and committed core team.

b) Growth potential

c) Long-term competitive advantage

d) Viable business plan

e) A clear exit plan

Even Government of India recognizing the financial needs of SME sector, it has promoted venture capital funds through public sector banks and Central Government controlled development finance institutions. The venture capitalist funds are- SBI Capital Markets Ltd. (SBICAP); Canbank Venture Capital Fund Ltd. (CVCFL); IFCI Venture Capital Funds Ltd., SIDBI Venture Capital Limited (SVCL) etc. Broadly these venture capital funds companies provide the following services- Structured Debt Placement, Stressed Assets Resolution, Merger & Acquisition, Project Advisory and Loan Syndication, Corporate Advisory Services etc.

At this juncture, it is important to discuss some excerpts of the Report of the Committee whose formation was announced in the Union Budget FY 2014-15. The committee was formulated to observe the financial architecture of the MSME sector. It was established by Department of Financial Services, Ministry of Finance vide notification dated September 26, 2014. The Committee's approach to the financial architecture for MSME comprises of the following essential components-

a) encouraging registration;

b) opening of bank accounts;

c) access to equity financing;

d) creating a platform for receivables financing;

e) expanding and enhancing guarantee cover;

f) and increasing distribution and reach to cover the large number of micro, small and medium enterprises (MSMEs) in the country through a wider base of financial intermediaries.

The Committee envisioned creation of an apex policy administration authority to oversee administration of policy as observed in several countries with a well-developed MSME ecosystem. The Committee recommendations emphasised upon creation of a financial architecture for the MSME sector that would use technology driven platforms to drive inclusion in financing of numerous MSMEs which do not have credit reach. This will assist in accomplishment of the Make in India goal as articulated by the Prime Minister and be in consonance with the Government's Digital Mission.

Simple registration/facilitation procedures, universal financial inclusion, strong guarantee programmes and a wider distribution network should enhance the connect between unbanked MSMEs and the financial system. Based on the recommendations of the Committee, bank credit to the MSME sector which was INR 10 lakh crore as of March 2014 could scale up to as much as INR 30 lakh crore in five years. The Committee recommendations would result in:

a) reducing operating costs;

b) augmenting existing credit analysis processes with use of payment information for assessing credit worthiness;

c) reducing credit costs for financiers;

d) and reducing borrowing costs for MSMEs

The important recommendations to accomplish the above goals are-

a) <u>*Creation of an apex authority which would be called the National MSME Authority under the Ministry of MSME*</u>. It will assist in ensuring a single point resource centre which will be a nodal agency to execute and administer programs, benefits and grievance redressal, facilitate ease of doing business, registration & inclusion and to design policy and implement the series of initiatives articulated in this report, there is a requirement for an apex authority to be set up. The Authority will establish and administer an appropriate centralised and integrated National MSME Portal to target universal registration of MSMEs through an online, mobile-enabled simple one-page registration/facilitation form for MSMEs based on self-declaration with a simplified set of rules and documents, and issue a unique identifier, or Udyog Aadhar to the MSME. This should be augmented by simplified mobile app based registration. Apart from this, it the authority will look into the following activities also-

i) Build flawless linkages with other pertinent departments / authorities to streamline other facilities, registrations and approvals.

ii) Setup linkages between the portal and credit providers and guarantee / insurance providers.

iii) Act as a resource centre for all central government and state government MSME schemes across the country.

iv) Coordinate with institutions providing equity finance, guarantees and financial assistance to improve the programmes funded by the government.

v) Enhance ease of doing business through accreditation of agencies to expand its own distribution reach.

vi) Focus on advocacy and capacity building by leveraging skilling and research initiatives already in place.

vii) Act as a grievance redressal forum.

The Ministry of MSME has operationalised a national portal for online registration of MSMEs through the District Industries Centres (DICs). The portal is planned to be linked with other departments of state governments for taxation, power, utilities and pollution control among others.

b) *Financial inclusion of MSMEs in time bound manner*: In order to attain the objective of universal financial inclusion of MSMEs, every MSMEs needs to use the aforesaid registration portal to ensure that every registered MSME possess a bank account. This can be an existing business banking account, and where bank account details are not available the process can facilitate opening a new business banking account with the information provided, including the ability to open a bank account entirely online using eKYC (electronic validation of KYC requirement). The bank account should be linked to the Udyog Aadhar.

To facilitate ease of doing business certain changes in the Companies Act, the Limited Liability Partnership Act and the Income Tax Act could be undertaken are suggested to provide simplified compliance, presumptive taxation and simplified dissolution for MSMEs.

c) Accelerate the flow of equity to the MSME sector by operationalising the ` 10,000 crore fund proposed in the Union Budget FY2014-15. The fund can be further leveraged multiple times to mobilize additional capital from private and institutional sources by increasing the eligible pool of domestic investors, providing appropriate tax incentives to qualified investors, as may be determined by regulatory authorities, for equity investment in small enterprises and formulating an easy exit policy to stimulate innovation and risk taking to start new enterprises. Simultaneously, there is a need to bring in a level playing field for domestic equity financing as compared to foreign investors investing in startups/MSMEs. The divergent treatment of capital gains compared to mutual funds and listed equity may also be removed. The measures to enhance flow of equity to the MSME sector and changes suggested to Section 56 (2) (viia) and (viib) of the Income Tax Act have been detailed in the chapter on equity financing.

d) Encourage establishment of an effective, online, technology-driven receivables financing platform with wide participation by credit providers, MSMEs, corporate and government units. This would be a key component of the new architecture, as permitted under the Trade Receivables Discounting System (TReDS) guidelines issued by the Reserve Bank of India (RBI). A strong receivables financing platform in the form of TReDS can lower the corpus requirement for guarantees for MSMEs. The bill acceptance and payment history data from TReDS should flow to credit bureaus to rate payment behaviour of corporate and government units. Initiatives to achieve a robust receivables financing platform by providing strong operating guidelines for the proposed TReDS platform have been covered in depth in the chapter on receivables financing.

e) Expand coverage under and enhance effectiveness & utilization of credit guarantee/insurance schemes and make the programmes accessible to a wider set of credit providers, upto and including select NBFCs and micro finance institutions. For this purpose, a seven fold increase in the corpus from INR 4,000 crore to about INR 28,000 crore over the next five years may be considered. The Ministry of MSME could determine the corpus required for guarantee schemes targeted at MSMEs based on the above estimate and augment the corpus in yearly tranches over the next five years. Of this, an amount of INR 5,000 crore could be considered in the forthcoming year. Other measures have been spelt out in detail in the chapter on guarantee and insurance schemes.

f) The financial architecture to serve the MSME sector should encompass a wider and deeper set of entities which will include scheduled commercial banks, non-bank finance companies, micro finance institutions, cooperative banks, the proposed new small finance banks and the proposed Post Bank of India. These entities could leverage outreach points outside the formal financial system (akin to the banking correspondent model) to enhance access to financial services through a hub-and-spoke approach, as also leverage the National MSME Portal to expand access. The post office network has 1,55,000 offices currently offering savings to individuals under the Post Office Savings Bank (POSB) small savings scheme. The proposed Post Bank of India (PBI) could become an effective channel for financial inclusion and delivery of credit to MSMEs. We understand that one of its key objectives could be to serve the MSME sector as well as individuals such as artisans, farm owners and rural micro enterprises. It could form an important part of the distribution architecture and boost potential employment generation through micro enterprises.

The Committee received inputs from an industry body and one of the Committee members on the need to develop additional sources of formal finance for the MSME sector through a structure that would include in its ambit the existing non-institutional last mile financiers. The suggestions proposed an organisation on the lines of the National Housing Bank for registration and supervision of a new category of dedicated Small Business Finance Companies, registration of non-institutional last mile financiers and other activities to promote flow of funds to the MSME sector. The proposal was discussed with the Ministry of Finance and the RBI and in view of the underlying risks associated with such a lightly supervised structure, the above structure was not considered feasible.

g) Encourage expansion in coverage of credit bureaus to include a wider range of credit institutions and a wider range of transaction records to facilitate a better credit and payment history of the buyer and the seller. This is particularly relevant for MSMEs which seek credit from the formal financial sector for the first time and do not have a credit history.

Lending pattern of public sector banks, private sector banks and foreign banks to SME sector

In this section, an effort is made to comprehend the lending pattern of three forms of banks, viz; public sector, private sector and foreign banks to SME sector in India. Since finance holds the key of starting a business enterprise, sustainability and growth.

Null Hypothesis (H0) **: There is no significant difference in the lending pattern of public sector banks, private sector banks and foreign banks to SME sector**

Alternative Hypothesis (H1)**: There is a significant difference in the lending pattern of public sector banks, private sector banks and foreign banks to SME sector.**

Years	Public Sector Banks (INR crore)	Private Sector Banks (INR crore)	Foreign Banks (INR crore)
2005	67,800	8,592	6,907
2006	82,434	10,421	8,430
2007	1,02,550	13,136	11,637
2008	1,51,137	46,912	15,489
2009	1,91,408	46,656	18,063
2010	2,78,398	64,534	21,069
2011 (provisional)	3,76,625	87,857	21,461
2012	3,96,343	1,10,514	21,760
2013	5,02,459	154732	30020
2014	615976	200138	30020

Source: RBI

Note: For simplicity in computations, the figures have been divided by 100 and rounded off to nearest decimal place.

Years	Public Sector Banks (INR crore)	Private Sector Banks (INR crore)	Foreign Banks (INR crore)
2005	678	86	69
2006	824	104	84
2007	1026	131	116
2008	1511	469	155
2009	1914	467	181
2010	2784	645	211
2011 (provisional)	3766	879	215
2012	3963	1105	218
2013	5025	1547	300
2014	6160	2001	300
Total	**27651**	**7434**	**1849**
Mean ($\bar{X}$)	**2765 (X1)**	**74 (X2)**	**18 (X3)**

Grand Mean($\bar{\bar{X}}$) = 2765 + 74 + 18 / 3 = 952

Variance Between Samples

$(\bar{X}_1 - \bar{\bar{X}})^2$	**$(\bar{X}_2 - \bar{\bar{X}})^2$**	**$(\bar{X}_3 - \bar{\bar{X}})^2$**
3286969	770884	872356
3286969	770884	872356
3286969	770884	872356
3286969	770884	872356
3286969	770884	872356
3286969	770884	872356
3286969	770884	872356
3286969	770884	872356
3286969	770884	872356
3286969	770884	872356
32869690	7708840	8723560

Sum of Squares between samples (SSC) = 49302090

Variance Within Samples

X1	**$(X_1 - \bar{X}_1)^2$**	**X2**	**$(X_2 - \bar{X}_2)^2$**	**X3**	**$(X_3 - \bar{X}_3)^2$**
678	4355569	86	**144**	69	**2601**
824	3767481	104	**900**	84	**4356**
1026	3024121	131	3249	116	9604
1511	1572516	469	156025	155	18769
1914	724201	467	154449	181	26569
2784	361	645	326041	211	37249
3766	1002001	879	648025	215	38809
3963	1435204	1105	1062961	218	40000
5025	5107600	1547	2169729	300	79524
6160	11526025	2001	3713329	300	79524
	$\sum (X_1 - \bar{X}_1)^2$ 32515079		**$\sum (X_2 - \bar{X}_2)^2$ 8234852**		**$\sum (X_3 - \bar{X}_3)^2$ 337005**

Sum of Squares within samples (SSE) = 32515079 + 8234852 + 337005 = 41086936

ANOVA Table

Source of Variation	**Sum of Squares**	**V**	**Mean Squares**
Between Samples (Column Means)	SSC = 49302090	d.o.f. = c-1 = 2	24651045
Within Samples (Errors)	SSE = 41086936	d.o.f. = c(r-1) = 18	2282608

Total	90389026	20	

Test Statistic : F = 24651045 / 2282608 = 10.8

For v1 =2, v2 =18 and for α=0.05, the table value of F is $F_{0.05}$ = 3.55

Decision: ***Since the calculated value of F = 10.8 is greater than the tabled value $F_{0.05}$ = 3.55, so that the null hypothesis is rejected. Hence, there is a significant difference in the lending pattern of public sector banks, private sector banks and foreign banks to SME sector in India.***

Way Forward- Indian Business Environment- Stifling or Stimulating SME Growth

India has traversed a long journey in modernizing its economy, poverty alleviation and improving living standards for a large section of its population. Indian economy has been the largest contributors to global growth over the last decade, accounting for nearly 10% of the globe's increase in economic activity since 2005. India's GDP have grown on an average @ 6.3% during 2005-14. With one of the largest and youngest populations in the globe, India needs to generate one million good-quality jobs in the near future to ensure civilized living conditions for the vast majority of its citizens.

Experts opines that India is an exemplar of a country that is marching towards modernization by pouncing directly into services without passing through manufacturing. The weight of manufacturing in India has been relatively stable over the past two decades, at much lower levels than China and ASEAN countries. Business services- a high value added sector- signifies a bigger share of economic activity in India than in Europe. According to Global Competitiveness Report 2015-16, India ranked 55th out of 140 countries (please refer exhibit 2). This improvement can be largely ascribed to two main factors- Firstly, macroeconomic conditions improved substantially. Inflation eased to 6% in 2014, down from near double-digit levels the previous year. The budget deficit has gradually came down since its 2008 peak. Secondly, the country benefits from the impetus initiated by the current NDA-II Government, whose pro-business, pro-growth, and anti-corruption stand has improved the business community's sentiment toward the government. Infrastructure has also improved, but remains a major growth hurdle. The fact that the most notable improvements are in the basic drivers of competitiveness bodes well for the future, but other areas also deserve attention, including technological readiness. Modernizing public institutions has been high on the agenda of reforms in India in recent years, and results have started to come. In 2015, businesses perceived lower levels of corruption among public officials and showed more trust in government's decisions. Improved public institutions are one of the major drivers of the increase in India's competitiveness. Yet, there is still a lot to be done.

What is heartening to note is that India scores relatively well in terms of access to finance for developing businesses and investing in the economy. Now India's entrepreneurs are getting better access to bank accounts, credit, venture capital, and equity markets than their counterparts in most peer countries. But the grey area is, that access to finance still remains limited for low income individuals, especially women. Approximately 400 million people remain out of banking network in India and disconnected from the financial system despite impressive gains in recent years.

India has to do a lot with respect to fostering entrepreneurship. It occupies the last place in the ranking of small business ownership, as budding entrepreneurs are restrained by red tape and an inefficient justice system, with relatively low rankings for indicators such as the time and cost of commencing a business, enforcing contract and resolving insolvency (please refer exhibit 3).

Last but not the least, to provide fillip to growth of SME sector, India has to capitalize on digitalization. India has been slipping behind other countries in developing Asia over the last decade. Until 2007, internet usage was in line with median performance of other economies in the region. Since then, countries like, Thailand and the Philippines have experienced a significant enhancement in the uptake of ICTs. Connecting India will imply investing in both physical and human capital to bridge the gap between the emerging markets. ICT could play a pivotal role in accomplishing India's dream to become a global manufacturing hub. Furthermore, ICT could generate wonders in improving productivity in agriculture and the services sector, while strengthening basic services among the rural populace. SMEs will thrive, if essential enablers powered by SMAC technologies are created in integrated ecosystems to support their following requirements.

i) Accessibility of expert knowledge and best practices.

ii) Financial independence and risk mitigation.

iii) Targeted marketing reach and sales.

iv) Operational excellence across locations.

v) Efficient provisioning of services.

vi) Real time insights and decision-making

Spurred by the '*Digital India Revolution'*, the MSME sector is perched to act as a catalyst in ushering socio-economic metamorphosis. India's GDP is estimated to touch 8.5 percent, with the country likely to be a USD5 trillion economy by 2025 according to research analyst KPMG.

Some of the noteworthy measures initiated by the corporate to provide momentum towards digitization among SMEs are as follows-

a) Every year, CeBIT India 2015, a global technology and business event, provides an ideal platform for MSMEs to connect with global industry leaders in the electronics and software ecosystem.

b) Google India has announced the launch of an India-wide initiative to help small and medium enterprises (SMEs) to go digital without huge expenses. SMEs will be offered the option to gain an online presence on Google search and Google Maps without having to invest in a website or domain. As part of this new initiative, Google India aims to get 20 million SMEs online by 2017 by using a simple mobile-based app called Google My

Business. Out of the total 51 million SMEs in India, less than 5 to 6 percent have online presence. With this new product, Google aims to bridge this gap.

c) As per the Facebook research and analysis, Facebook is still a lucrative network for small business owners and merchants, even though organic growth is nearly non-existent. Earlier this year Facebook informed that 40 million SMBs have active Facebook Pages. Facebook's Small Business Boost program has been designed to arm Indian businesses with the knowledge, skills and technology required to stay innovative and connect with customers at home and abroad, a company statement said.

d) SAP Business One and also SAP Business ALL-in-One application are specifically built for the SME market to bring the application to the smaller companies in a very cost effective way. "The SME would be attracted to HANA Cloud platform which is a boon for the entrepreneur to start with.

Another significant regulatory development have been the inclusion of the concept of One Person in Indian Companies Act, 2013. The introduction of One Person Company in the regulatory structure is a step that would engender corporatization of micro business and entrepreneurship with a simpler legal regime so that small entrepreneur is not forced to devote substantial time, energy and resources on complex legal compliances. This will not only assist in contribution of individual capabilities towards economic growth, but also generate employment opportunity. As per provision of Section 2 (62) of the Indian Companies Act, 2013 defined "One Person Company" means a company which has only one person as member. The idea of One Person Company (OPC) was mooted, in the report of Dr.J.J.Irani Committee. The Irani Committee briefly referred to OPC in its report. In Chapter III titled, "Classification and Registration of Companies", the committee suggested multiple classification as given hereunder-

a) <u>On the basis of size:</u> Small companies and other companies.

b) <u>On the basis of number of members</u>: One Person Company; Private Companies and Public Companies.

c) <u>On the basis of control</u>: Holding Companies, Subsidiary Companies and Associate Companies.

d) <u>On the basis of liability</u>: Limited by shares and guarantee and Unlimited.

e) <u>On the basis of manner to access to capital</u>: Listed and Unlisted companies.

Once OPC gains ground in India it will offer following benefits- Minimal paper work and compliances; Ability to form a distinct legal entity with just one member and provision for conversion to other forms of legal entities by induction of more members and amendment in the Memorandum of Association.

The One Person Company concept will bring halcyon days for small traders, entrepreneurs with low risk taking capacity, artisans and other service providers. The OPC would provide a launch pad for such entrepreneurs who desire to showcase their abilities in the global arena.

Privileges available to OPC are as follows:-

i) OPCs would provide the start-up entrepreneurs with new business idea.

ii) OPC provides an outlet for the entrepreneurial impulses among the professionals.

iii) The advantages of limited liability. The most significant reason for shareholders to incorporate the ‘single-person company’ is certainly the desire for the limited liability.

iv) OPCs are not proprietorship concerns; hence, they give a dual entity to the company as well as the individual, guarding the individual against any pitfalls of liabilities. This is the fundamental difference between OPC and sole proprietorship.

v) Unlike a private limited or public limited company (listed or unlisted), OPCs need not bother too much about compliances.

vi) Businesses currently run under the proprietorship model could get converted into OPCs without any difficulty.

vii) OPCs require minimal capital to begin with. Being a recognized corporate, could well raise capital from others like venture capital financial institutions etc., thus graduating to a private limited company.

viii) Mandatory rotation of auditor after expiry of maximum term is not applicable.

ix) The annual return of a One Person Company shall be signed by the company secretary, or where there is no company secretary, by the director of the company

x) The provisions of Section 98 and Sections 100 to 111 (both inclusive), relating to holding of general meetings, shall not apply to a One Person Company.

xi) A One Person Company needs to have minimum of one director. It can have directors up to a maximum of 15 which can also be increased by passing a special resolution as in case of any other company.

xii) For the purposes of holding Board Meetings, in case of a one person Company which has only one director, it shall be sufficient compliance if all resolutions required to be passed by such a Company at a Board meeting, are entered in the minutes-book, signed and dated by the member and such date shall be deemed to be the date of the Board Meeting for all the purposes under this Act. For other One Person Companies, atleast one Board Meeting must be held in each half of the calendar year and the gap between the two meetings should not be less than 90 days.

xiii) The financial statements of a one person company can be signed by one director alone. Cash Flow Statement is not a mandatory part of financial statements for a One Person Company. Financial statements of a one person company need to be filed with the Registrar, after they are duly adopted by the member, within 180 days of closure of financial year along with all necessary documents.

xiv) Board’s report to be annexed to financial statements may only contain explanations or comments by the Board on every qualification, reservation or adverse remark or disclaimer made by the auditor in his report.

Exhibit 1

List of scheme / institute and Nature of assistance

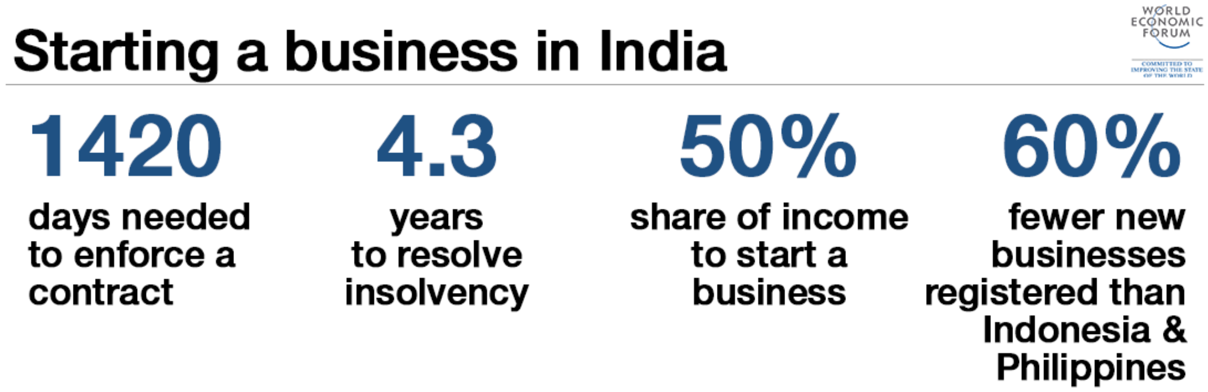
Name of scheme/ institute	**Nature of assistance**
National Small Industries Corporation (NSIC)	Financial and marketing assistance to the small scale unit supplying requisite machinery on hire purchase and leasehold basis
Small Industries Development Agency (SIDA)	Single window service for SSI units
Credit Linked Capital Subsidy Scheme (CLCSS) (by various banks and institutes)	Facilitates technology upgradation of micro and small enterprises. The scheme provides 15% capital subsidy on institutional finance availed by them for induction of well-established and improved technology in approved subsector products. The maximum limit of loan for calculation of capital subsidy under the scheme is 100 lakh INR with a maximum subsidy of 15 lakh INR.
PMEGP Training Programme	Beneficiaries can set up micro enterprises by availing of margin money subsidy of 25% (35% for special categories) of the project cost in rural areas. The maximum cost of the projects assisted under PMEGP is 25 lakh INR in the manufacturing sector and 10 lakh INR in the service sector.
Small Industry Development Bank of India (SIDBI) (Eastern Regional Office)	Promotion, financing and development of the small scale sector, and co-ordination of the functions of the institutions engaged in the promotion and financing or developing industry in the small scale sector. SIDBI also refinances institutions such as state financial corporations (SFCs), state industrial development corporations (SIDCs), and commercial banks against loans granted to the small-scale sector. SIDBI also acts as financer for small-scale projects directly on a selective basis. Products and services offered by SIDBI may be broadly classified: **Institutional:** Focuses on refinance schemes, like Mahila Udyam Nidhi, finance to small transport operators, technology upgradation fund for textile units, loans for acquisition of ISO certification, selfemployment loan for ex-servicemen, single window finance for short term credit, all of them operated

	through SFCs or SIDCs or primary lending institutions or Banks or other microfinance institutions, depending upon the category of loans. **Promotional:** SIDBI acts as a nodal agency for several Government schemes such as Technology Upgradation Fund Scheme for the textile sector, Integrated Development of Leather Sector Scheme for the leather sector and Modernization/Upgradation of Food Processing Industry. SIDBI Venture Capital Fund Ltd (SVCL) manages two funds set up by SIDBI at the national level. • The National Venture Capital Fund for Software and IT Industry (NFSIT) is worth 100 crore INR, established with the focus of supporting incubation projects of small-scale units in the IT and related business. • The SME Growth Fund has a corpus of 500 crore INR which targets growth-oriented businesses in the areas of life sciences, retailing, light engineering, food processing, IT, infrastructure related services, healthcare, logistics and distribution, for making primary equity and equity related investments.
National Bank of Agriculture (NABARD)	Assistance and refinance to farm and rural development agro processing sector
Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)	CGTMSE, established jointly by SIDBI and the government of India, extends credit facilities to the micro and small enterprises sector. The mandate is: Credit facilities, including term loans, fund and non-fund based working capital facilities up to 1 crore INR extended to micro and small enterprises are guaranteed up to 80% of the amount in default, subject to a maximum of 65 lakh INR. With regard to loans up to 5 lakh INR to micro units, the coverage is 85%. Loans guaranteed under the scheme carry zero percent risk weight and provision for the lending institution for the guaranteed portion. The scheme also facilitates lending institutions by the evaluation of the credit proposals on the basis of intrinsic merits of the projects, rather than merely on adequacy of collaterals.
Reserve Bank of India Rural Planning and Credit Dept	Providing refinance to nationalised banks and financial institutions in the industry sector and framing of policy

	decision in the working of banks
Exim Bank	Credit facilities are available for financing all stages of the export cycle of Indian firms. The bank's lines of credit (LOC) extend 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. The bank offers buyer's credit and supplier's credit for exports on deferred payment terms. These facilities help SMEs, to offer competitive credit terms to the buyers and to explore newer geographical markets.
TUF	TUF facilitates those SMEs that look to improvise their technological skills. It provides 15% margin money subsidy for the SSI textile and jute sector in lieu of 5% interest reimbursement on investment in TUF compatible specified machinery subject to a capital ceiling of 200 lakh INR and ceiling on margin money subsidy 15 lakh INR. A minimum of 15% equity contribution from beneficiaries is ensured.
CLCSS	Under CLCSS, tiny units with investment in plant and machinery of less than 10 lakh INR are eligible for a loan support of upto 8 lakh INR. Tiny units with investment in plant and machinery between 10 lakh INR to 25 lakh INR are eligible for a loan support of upto 20 lakh INR. Small units with investment in plant and machinery of above 25 lakh INR are eligible for a loan support of upto 40 lakh INR.
Interest subsidy scheme of IPR, which works effectively with the active assistance of banks and financial institutions	The interest subsidy scheme helps in dispensation for labour-intensive industry by extending the facility of 2% interest subvention for handlooms, handicrafts, carpets and small and medium enterprises (SMEs).
NEF	Under NEF, loans are given to firms with a project cost (including margin money for working capital) not exceeding 50 lakh INR in case of new projects. No interest is charged on the loan component except service charge of 5% p.a.
Scheme of Fund for Regeneration of Traditional Industries (SFURTI) through Coir Board	75% for CFC, technology upgradation, product development and 100% for capacity building, market development with component-wise ceiling. The components of funding are technology upgradation, setting-up of common facility centres (CFCs), development of new products and designs, new and improved packaging, etc, market promotion activities, capacity-building activities, other activities identified by the implementing agency (IA) as necessary for the development of the cluster

Exhibit 2

Exhibit 3



Source: World Economic Forum

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