

Abstract

The mandate to provide financial support to the small and micro enterprises has been wedded historically to the social/development banking priorities of India. As the country moved into the liberalization phase in the early 1990s, these priorities have been reset and redefined to match the objectives of developing a primarily profit-oriented, efficient and competitive banking sector. The reform measures that have been unwound through the last two decades try to recast the general financial architecture and to create newer instruments and arrangements for financial deepening. These changes have meant a renewed focus on the medium, small and micro enterprises (MSMEs) - especially, the unregistered micro component within them – given their fractured linkages with the mainstream financial system. This paper attempts a close look at the existing empirical evidence on the status and performance of the small scale industry/MSME sector in India as also the institutional framework and policy initiatives in providing for finance to the sector. In the process, the paper addresses some important challenges that might blight the efforts at broad-basing financial services to MSMEs, particularly, those in the informal sector.

Keywords: Small industry, MSME, India, Finance

JEL Classification: O25, G20