



SIDBI AND its VITAL CONTRIBUTION TOWARDS DEVELOPMENT OF MSME'S IN INDIA



I *ntroduction*

Prosperity of a nation and its economy is in a big way characterized by contribution from its social, Industrial, Human resource and Banking/Financial sector. They are all the pillars or foundations of the healthy economy. In a developing economy like India. In the past two decades Industry and industrialization has increased manifold in order to cater to the growing national and international needs .New industries both big and heavy and medium scale have come up in all parts of the country and have been producing goods both for domestic consumption and also for export. Industries have thus proved themselves as the backbone of developing mixed economy In India.

The MSME industries manufacturing various types of products including consumables, spare parts, machinery, automobiles, electronics, cottage and handicrafts, etc. are continuously striving to satisfy the consumer needs and bringing about self-sufficiency in Industrial sector. With constant rise in demand the world over Industrial outputs have been shooting upward and are trying to increase their output capacity. The rising demands can be met only if all industries join hands to supplement each other's needs. The heavy industries are heavily dependent

upon the MSME for their raw material and semi-finished requirements. Here the vital role of MSME is clearly seen and hence in the present scenario small and medium industries are very valuable. In rural areas these MSME are in abundance and have nurtured the urban industries at every point of need be it in case of raw materials or labour force. They produce variety of local goods, handmade items, artistic items, handicrafts products of bamboo and coir, medicinal herbs and forest products, small spares and small machines. These MSME work from their bases with meagre amount of resources and help, hence in some cases they lag behind at times of need. A need was hence felt to help these MSME and allied industries with financial and refinancing schemes. Central Government has established some Institutions and banks to extend the financial aid to MSME. **SIDBI (Small Industries Development Bank of India)** is the Primary Financial Institution for promoting, developing and financing MSME. It extends an olive branch to the small scale, medium scale, and cottage village industries by helping them to acquire funds necessary for their growth, development, market acquisition and commercializing its products, skill and technology.

SMALL SCALE INDUSTRIES AND

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INDIAN LANDSCAPE

There is very little doubt to the fact that Small and Medium Enterprises (SME) sector is the backbone of India's developing mixed economy. The scope of MSME ranges from rural economy oriented agriculture and allied activities like cottage, handicrafts, forest produce etc. to manufacturing and service industry. Its purpose is to **provide refinance facilities and short term lending to industries**, and serve as the principal financial institution in the Micro, Small and Medium Enterprises (MSME) sector. SMEs are rapidly growing all over India after the variety of schemes being introduced and implemented nationwide. Statistical figures reveal that SME contribute for almost 45% of industrial output and 40% of the total exports from India. MSME has provided employment to 60 million people and has created 1.3 million jobs every year. MSME has played a vital role in changing the old outdated face of rural India into an urbanized Rural India by introducing new industries and new methods of skill enhancement among the rural masses. Even though the MSME has contributed immensely to the socio-economic growth of India, it is not free from challenges like:

- Insufficient capital due to limited access to finance and credit schemes
- Slow pace in attracting talented and techno-savvy manpower resources
- Outdated infrastructure and utilities followed by backwardness in rural innovation
- Lack of advanced marketing know-how, lack of storage and warehousing facilities and advertising techniques

These challenges have driven the Indian SMEs towards underutilization of their full potential, and have failed to cope themselves as per international competitive standards. No doubt all out efforts are being made by the Governments both central and state to infuse life in MSME to safely overcome these hurdles. The National Manufacturing Competitiveness Programme encourages SMEs to adopt Information and Communication Technology tools and applications for their business processes. Government is also extending financial assistance to many national level

training institutions operating under the Ministry of MSME to strengthen financial and technical infrastructure in rural areas aimed at rural entrepreneurial skill development. NASSCOM, India's industry association for the IT and IT-enabled products has formed SME Council for its SME members. The private enterprises and members from corporate sector are also helping to give a new lease of life to the SME sector in India. The SME sector has been recognized by the United Nations. United Nations celebrates 'Micro, Small and Medium-sized Enterprises Day' on 27th June every year to raise public awareness of this sector's contribution towards sustainable development. The world has endorsed the importance of SME in the progress of industrial sector and its contribution in the comprehensive growth of the large industries. The only piece of implementation which needs to be made by SME is immediate adapting to changing trends and switching over to digital mechanisms.

In this context, the need of a strong supporter in terms of finance and fund raiser is all the more necessary to instill confidence of the MSME entrepreneurs to continue their business with more efficient and effective manner. MSME are the feeder units for most large scale enterprises and hence protecting these SSI's is vital for the strong national industrial scenario. The role of the premier savior of MSME i.e SIDBI is to be highlighted here to bring a clear picture of MSME development.

SIDBI- A brief description:

Small Industries Development of India was incorporated under the SIDBI Act, 1989 was established on April 2, 1990 as the premier development financial institution for promoting, and providing financing support while assisting in development of small scale industries. SIDBI with its headquarters at Lucknow and numerous branches in each state, is empowered to co-ordinate the functions of all the institutions in the Micro, Small and Medium Enterprise sector. SIDBI operates under the Department of Financial Services, Government of India.

SIDBI helps MSME in acquiring the funds they require to grow, develop and commercialize their technologies with innovations and provide markets for their produce. Its purpose is to **provide**

refinance facilities and short term lending to industries, and serve as the principal financial institution in the Micro, Small and Medium Enterprises (MSME) sector. SIDBI also coordinates the functions of institutions engaged in similar activities like transferring term loan to banks, small finance institutions, NBFC etc.

Although the primary task of SIDBI is Refinancing, still it helps MSME by directly lending funds to these enterprises in terms of dire need. SIDBI supports the Government of India in its initiatives and work as a nodal agency for some of the schemes related to development of MSMEs, such as [Make in India](#) and [Startup India](#).

Vision and Mission of SIDBI:

Vision: SIDBI aims to facilitate and strengthen credit flow to MSME. Besides offering financial assistance to MSME, SIDBI also provides developmental support to the MSME eco-system.

Mission: SIDBI aims to emerge as the go-to institution for financing support for MSME.

How SIDBI functions?

SIDBI performs varied functions under its capacity as a lender and refiner in the following ways:

- 1) Targeting industrial development in rural and semi urban areas and downsizing the problem of labour migration to urban areas.
- 2) By focusing on the development of employment generating industries basically in rural and semi-urban areas, SIDBI is helping in creating ample employment opportunities in the country.
- 3) Provides help, technical assistance and guidance for upgrading and modernizing the small-scale industries and for skill enhancement of the entrepreneurs of the small scale units.
- 4) Works in cooperation with likeminded concerns viz. SSI Development Corporations. which are also engaged in development of MSMEs
- 5) Acts as the nodal agency for various government schemes designed for small scale units.
- 6) Financing and refinancing MSMEs for

fulfilling their capital requirements.

SIDBI AND ITS NOTABLE CONTRIBUTIONS TOWARDS REVIVING AND REBUILDING MSME AND RURAL INDUSTRIES

SIDBI with its aim of uplifting and refinancing the MSME sector has floated certain agencies and entities for assisting, funding and credit rating of small scale units. They are as follows:

- SIDBI Venture Capital Limited (SVCL) – aimed at providing necessary Venture Capital (VC) assistance to MSMEs;

Micro Units Development & Refinance Agency (MUDRA) –

- created with the intention and need of funding the micro enterprises in the country which have till date remained unfunded or underfunded
- Receivable Exchange of India Ltd. (RXIL) floated for enabling faster, quicker and easier ways and methods for the realization of amount and dues receivables by MSMEs;

SMERA Ratings Limited (SMERA)

- - This agency was established for the task of credit rating of MSMEs. This has been now renamed as Acuite Ratings & Research Limited.[ARRL]
- India SME Technology Services Ltd (ISTSL) – Established for providing timely technological advise and extending consultancy services
- India SME Asset Reconstruction Company Ltd. (ISARC) this has been floated for the speedier resolution of problem of overburdened Non-Performing Assets (NPA) in the MSME sector.

SIDBI raises resources besides internal generation by way of repayment of debts by borrowers and institutions, through two major routes i.e domestic and external borrowings. Its domestic bonds issues have been given an AAA rating (indicating the highest safety) by the rating agencies, CRISIL and CARE

SIDBI also helps by providing Foreign Currency Loan to MSME to Import equipment by

existing SSIs which carry on export oriented business and new units having future fixed plans for entering export markets. It also executes confirmed export orders by way of pre-shipment credit/letter of credit and provides post shipment facilities.

SIDBI has been working relentlessly towards funding and helping the small scale industries for their all-round development. One of the examples is the make in India soft loan fund. Details of this fund are:

SIDBI Make in India Soft Loan Fund for Micro Small and Medium Enterprises [SMILE] has the following characteristics:

- Competitive rates of interest with longer period of repayment
- Funding of part Promoter contribution by way of soft loans and faster dispensation
- To provide soft loan, in the nature of quasi-equity, and term loan on relatively soft terms to MSMEs for establishment of new unit or for growth of existing MSMEs
- Focus to be concentrated on n identified 25 Make in India sectors along with extra on, deserving proposals from other sector purely based on merits
- Loans extended under the scheme cannot be used for repayment of earlier loans

Criteria/Conditions

- Priority is to be given to hitherto unrecognized, under privileged under financed new enterprises in the manufacturing as well as services sector with preference being granted towards financing smaller enterprises within MSME
- Undertaking modernization, Expansion and technology upgradation of the existing enterprises
- Minimum Loan Size - ₹25 lakh
- Repayment time is up to 10 years and moratorium period of up to 18 months
- Minimum Promoter Contribution is of 15% subject which is subject to Maximum Debt Equity Ratio of 3:1

Security Conditions before providing Loan

- First and foremost charge will be exercised

over all assets which are/will be created under the project

- Personal guarantee of promoter(s)
- For all projects involving term loan up to 2 crore will be covered under Credit Guarantee Scheme of CGTMSE

Conclusion:

Given that small scale industries under the MSME sector are the backbone of Indian industrial scenario, it is imperative that they need to be developed and nurtured so as to make them at par with the current competitive needs. They need to be helped and supported in their financial and other sectoral needs. They have immense potential but they lack in support and hence institutions like SIDBI have been formed and authorized to finance and refinance the activities of MSME sector to support and supplement them in their ventures. The MSME sectors must seize this opportunity and make good of all the help they receive. They should try to introduce new and innovative techniques to derive maximum benefits from the aids they receive. At the same time they should be aware of the fact that the help they get are for their betterment which they must achieve and also help the other SSI which are below the mark to come up. They must put the support fund to utmost best use and bring upgradation in themselves and create new supplements through self-resourcing. SIDBI has provided and ensured that finance and refinance facility is extended to every nook and corner in India for all types of MSME. SIDBI has done its part of supporting the SSI. It should also introduce some more novel measures for setting up of more and more rural industries and provide end-to-end assistance in terms of knowledge dissemination, best industry practices, networking, policy advocacy and brand building.

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Declaration and Plagiarism Report

I, Govindaraja A Bhatta, Asst.Prof, Commerce Department, R.S. Mundle Dharampeth Arts and Commerce College, Nagpur do hereby, declare that this Research Paper titled "**SIDBI and its vital importance in development of MSMEs in India**" is my own research work done after study from relevant books and journals. Only references are taken from them and matter are not copied. This is my own effort to publish a paper in an esteemed Research Journal. References and citations have been mentioned and paper is submitted in prescribed format.

All efforts have been made to maintain utmost transparency.

GOVINDARAJA.A.BHATTA

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