

# A Study on Various Schemes for Msmes: With Special Reference to SIDBI

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## ABSTRACT

The Micro, Small, and Medium Enterprises (MSME) sector is the base of the Indian economy as this sector has created employment for more than 120 million persons through 63.4 million units. MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities as well as 33.4% of India's manufacturing output and contribute around 45% of the overall exports from India. This sector has consistently maintained a growth rate of over 10%. About 20% of the MSMEs based in rural areas indicate the deployment of significant rural workforce in the MSME sector; this shows the importance of these enterprises in promoting sustainable and inclusive development as well as generating large scale employment, especially in rural areas. SIDBI is the principal financial institution for promoting, financing, and developing of the Micro Small and Medium Enterprises (MSME). It supports the MSME sector to gain the needed strength and has introduced various schemes and initiatives to meet the various requirements of the sector. Hence in the present paper various schemes of SIDBI are discussed for the development of MSMEs.

**Keywords:** Inclusive, MSME, Sustainable.

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## INTRODUCTION

The Micro, Small and Medium Enterprises (MSME) sector is the base of Indian economy as this sector has created employment for more than 120 million persons through 63.4 million units. MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of GDP from service activities as well as 33.4% of India's manufacturing output and contribute around 45% of the overall exports from India. The Micro, Small and Medium Enterprises Development Act was enacted in 2006 by Government of India for promotion and development of Small and Medium Enterprises sector. Under this act, enterprises are classified as micro. Small and medium enterprises. This classification has been done as per the capital invested in such enterprises. The investment of capital is divided as per the manufacturing sector and service sector enterprises. In manufacturing sector enterprises having capital up to 25 lakhs is classified as micro-enterprises, enterprises having a capital of 25 lakhs but not more than 5 crore is small enterprises and enterprises having a capital of 5 crore but not more than 10-crore is medium enterprises. In the context of service sector enterprises having a capital of 10 lakhs are micro-

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enterprises, those having a capital of more than 10 lakhs but limited to 2 crores has been classified as small enterprises, and those having capital of 2 crores, but limited to 5 crores are medium enterprises. As it is clear investment limit is more in the manufacturing sector as compared to the service sector. The Small Industries Development Bank of India is the principal financial institution for promoting, financing, and developing of the micro, small and medium enterprises (MSME). It supports the MSME sector to gain the needed strength and has introduced various schemes and initiatives to meet the various requirements of the sector.

## REVIEW OF LITERATURE

- Sharma (2017), in reference to the study of SIDBI dicer financing, the author wrote that banks had taken many efforts for the growth and development of MSME in Rajasthan.
- Yadav (2014), the author talked about the various program of SIDBI in the Lucknow region. He also talks about the awareness program done by SIDBI in the Lucknow region.
- Rao (2013) The author told that to improve the conditions of MSME, various developmental initiatives are taken for addressing the emerging needs of the sector and also to create employment opportunities in this sector.
- Sharma (2008), the author talked about rural industrialization and stated about efforts of SIDBI for the development of the Small Scale Sector in rural areas. Various schemes of SIDBI in rural areas such as refinancing, discounting, and rediscounting as well as financial assistance through indirect functions.
- Venkatesh and Muthiah (2012) The author studies the role of MSMEs in the industrial development of India. They emphasize that nurturing MSMEs sector is essential for the economic well being of the nation.
- Dixit and Pandey (2011) The author studies the relationship between SMEs' output, exports, employment, number of SMEs, and their investment with total India's export.

## METHODOLOGY

The data for the research paper is collected from secondary sources, through (1) Annual Reports of SIDBI, (2) RBI Annual Reports, (3) Reports of Ministry of MSME, (4) SHODHGANGA GDP and investment.

## SCHEMES OF SIDBI FOR MSMEs

Following are some schemes for assistance to MSMEs from Small Industries Development Bank of India (SIDBI):

### Direct Assistance

#### *Term Loan Assistance:*

Term loan are provided for (1) Setting up of the new project and for technology up-gradation/modernization, diversification, expansion, energy efficiency, adoption of clean production technologies, etc. of existing MSMEs (2) Service sector entities and (3) Infrastructure development and upgradation.

### *Working Capital Assistance*

The objective of this scheme is to provide term loans to MSMEs to meet the shortfall in working capital, including WC margin. Working capital arrangement with IDBI Bank-SIDBI has a strategic arrangement with IDBI Bank to provide working capital.

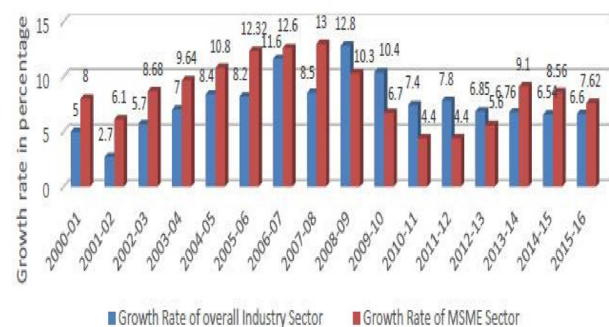
### *MSME Receivable Finance Scheme*

SIDBI operates the MSME Receivable Finance Scheme (RFS) for MSME sellers/ eligible service providers in respect of sales and services rendered to purchaser companies. Under the schemes, SIDBI fixes limits to well-performing purchaser companies and discounts usance bills of MSMEs/eligible service sector units supplying components, parts, services, etc. so that the MSMEs service sector units realize their sales proceeds quickly. This initiative of reverse factoring addresses the delayed payment issues of MSMEs.

### *Vendor Development Programme*

Original Equipment Manufacturers (OEMs) of some of the growing sectors are looking up to their vendors to upscale their facilities to support their growth. Some of the OEMs are advising their vendors to relocate facilities either close to their plants to improve inventory management or to new areas where tax benefits are available. With a view to catering to the increasing demand, SIDBI introduced and remodeled from time to time, a special vendor development program to OEMs. Depending upon the comforts provided by the OEM, the scheme provides several flexibilities in fixing financial parameters, appraisal mechanism, etc. Conceptually the schemes enable us to adopt a customized approach to each OEM. Under the scheme, the term loan, a working capital loan provided to the OEMs.

Chart I - Comparison of MSME sector vis-a-vis Overall Industry



Source: Annual Reports of Ministry of MSME



### *Foreign Currency Loans*

Assistance and line of credit in foreign currency to institutions/banks for extending foreign currency assistance to MSME units/ Exports Houses and Trading Houses etc. SIDBI offers forex assistance to its MSME customers in various forms, including foreign currency term loans, booking of forwarding contracts, etc.

### *Equity Support*

Pursuant to the announcement of setting up of MSME risk capital fund of 2000 crore by Hon'ble Finance Minister in the Budget Speech for FY 2008-09, a Risk Capital Fund for MSMEs has been set up in SIDBI to provide equity support to MSMEs. The bank has set up the "SIDBI Foundation for Risk Capital (SFRC)" to manage the fund. SFRC has developed a more standardized and appropriate risk capital products for quick and effective utilization of the fund to benefit a large spectrum of MSMEs.

### *Scheme for Energy Saving and Clean Production Technology Projects in MSME Sector*

The SIDBI has negotiated a line of credit from Japan International Cooperation Agency to encourage MSMEs to invest in energy-saving projects and introduced Scheme for Energy Saving Lending in the MSME sector. Under the scheme, assistance is provided to MSMEs at the concessional interest rate for energy-saving investments in plant and machinery/production processes, clean and renewable energy sources, reduction in CO<sub>2</sub> emission, etc. The scheme, apart from offering the concessional rate of interest, also provides the benefits of Govt subsidy schemes. Till December 2009 more than 1200 MSMEs has been provided direct assistance under the scheme with aggregate assistance of 563 crore. The bank has also organized awareness campaign at 15 MSMEs clusters for information dissemination and promoting energy savings potentials in the cluster.

### *Auto Rickshaw Financing*

A total of 600 CNG fitted auto rickshaws were provided assistance in Chandigarh by Delhi Finance Corporation (DFC). SIDBI provided refinance to DFC for these clean energy initiatives.

### *Solar Lanterns*

Friend's of Women World Banking (FWWB), an MFI was sanctioned of 10 crore for providing assistance to micro entrepreneurs for Solar lanterns of 2 watts each 50000 micro entrepreneurs are proposed to be covered under the assistance.

### *Privileged Customer Scheme*

In view of the persistent Demand from the existing customers for an open ended credit product which could be delivered quickly for meeting their unforeseen /emergent business expenditure, etc a new scheme viz Privileged Customer Scheme (PCS) was introduced to provide annual credit limits to the Existing well-performing customers of SIDBI for their annual non-project-specific investment plans.

### *Non-fund Based Scheme*

SIDBI offers guarantee and Letter of Credit facilities in foreign currency and rupee to its customers to meet their non-fund based credit requirements. In contemporary international commercial dealings, many transactions are required to be backed up with a guarantee. SIDBI provides an ordinary guarantee and deferred payment guarantee to MSMEs. SIDBI has been opening a foreign Letter of Credits for its customers both for the purchase of capital equipment and raw materials. However, several customers are required to open inland LCs for domestic suppliers of capital equipment and raw materials. Given this, SIDBI has commenced opening Inland LCs for MSMEs.

### **Indirect Assistance**

#### *Resource Support*

SIDBI provides resource supports to institutions/Non-Banking Financial Companies (NBFCs) engaged in the promotion and development of the MSME sector to facilitate channelizing of assistance to a large number of MSMEs and infrastructure projects having linkages to MSMEs.

#### *Lines of Credit (Refinance) in Favors*

Banks, State Financial Corporation's (SFCs), State Industrial Development Corporations (SIDCs) and State Small Industries Development Corporations (SSIDCs).

#### *Micro Credit Schemes*

Term loan assistance to mfis for onward lending, transformation loans, privileged partner scheme, a term loan to market service providers, partnership assistance, micro enterprises loans, and equity support.

### **CONCLUSION**

The Small Industries Development Bank of India (SIDBI) is the principal financial institution for promoting, financing, and developing of the Micro, Small and Medium Enterprises (MSMEs). SIDBI also provides

financial assistance to various institutions engaged in the promotion and development of the MSME sector. The SIDBI provides financial support through intermediaries like SFCs, SIDCs, SSIDCs, NBFCs, IDBI. The Small Industries Development Bank of India provides various Direct Financial Assistance and Non-Financial Assistance MSME Receivable Finance Scheme, Vendor Development Programme, Equity Support, Privileged Customer Scheme, etc.

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