A Study of Role of SIDBI’s in Growth and Development of SSI & MSME in India

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Abstract

MSMEs play a significant role as the growth engines of the Indian Economy. In fact, they have been playing a critical role in the socio-economic development of the country. Their main objectives have been mass employment generation, low investment, Import substitution, export earnings, labour intensive mode of production, capacity to develop indigenous technology and high contribution to domestic production. MSME sector is heterogeneous, highly dispersed and mostly unorganised. The developing economy of Rajasthan is also based on development of SSIs and MSMEs in the state. This paper is an attempt to explain the role of the SIDBI in development SSI and MSMEs in Rajasthan and its recent trends. It also includes an overview of few new schemes of SIDBI.

Keywords: Small Scale Industries, Micro, Small and Medium Enterprise, Development of Indian Economy

Introduction

Small Industries Development Bank of India (SIDBI) was established on 2 April 1990 under an SIDBI Act, 1989 passed in parliament. The charter establishing SIDBI envisaged SIDBI to be “the principal financial institution for the promotion, financing and development of industries in the small scale sector and to coordinate functions of other institutions engaged in similar activities.” SIDBI started its operations by April 2, 1990, through taking over the outstanding

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portfolio and actions of IDBI pertaining to the small-scale sector. In pursuance of the SIDBI (Amendment) Act, 2000, and as approved by the Government of India, 51.1 per cent equity shares of SIDBI held by IDBI have been transferred to public sectors banks, LIC, GIC, and other institutions owned and controlled by the central government. Beginning as a refinancing agency to banks and states level financial institution it has expanded its activities, including direct credit to the SME through 100 branches in all major industrial cluster in India. Presently SIDBI has 35 banks, insurance companies, investment and financial institutions as its shareholders in addition to IDBI, which continues to hold 49 percent share in SIDBI. Besides, it has been playing the development role in several ways such as support to micro finance institution. SIDBI has also floated with several other entities like Credit Guarantee Fund Trust for Micro and Small enterprises, SIDBI Venture Capital ltd., etc.

Four basic objectives of SIDBI are: financing, promotion, development, and coordination for orderly growth of the small-scale industries.

SIDBI plays a significant role in promotion, financing and development of SSI and coordinating the functions of institutions busy in similar actions. Its field of actions comprises:

- Direct finance operations to SSI, MSMEs and Service Sectors besides Infrastructures.
- Indirect finance through resource support to the banks, NBFCs SFCs and other central financing/ Development Agencies, Development of Micro Credit Institutions.
- Promotion of other Associate Institutions like Venture Capital, Rating Agency, Credit Guarantee Fund, Asset Reconstruction Company and so on; and
- Nodal Agency for Government of India MSME schemes like Technology Up gradation Fund Scheme (TUFS), Credit Linked Capital Subsidy Scheme (CLCSS), Integrated Development of Leather Sector
SIDBI retained its position in the top 30 development banks of the world in the latest ranking of the bankers, London. SIDBI has permitted to raise finances up to Rs. 2730 cr. onwards by RBI. The business domain of SIDBI consists of MSMEs which contribute significantly to the national economy in terms of production, employment and exports. MSME sector is an important pillar of Indian economy with a vast network of around 3 cr. Units, creating employment of about 7 cr., manufacturing more than 6000 products, contributing about 49% to gross value output and about 45% of exports, directly and indirectly.

Small-scale industries are those industrial units in which the investment in plant and machinery does not exceed Rs. 10 million. The small-scale industry sector consists of approximate 3.9 million units, forms the backbone to the Indian economy which contributes around 42 percent of India’s total built-up sector output. Small scale industries play an important role in development of dynamic economy of India. The small-scale sector covers a wide spectrum of industries occupies an important place in economy. It has undoubtedly grown into one of the most vital sectors of economy. The small-scale sector including small, tiny and cottage industries with a total strength of 40 lakh units not only provides immediate employment but also acts as a tool to ensure a more impartial distribution of income as well as an effective vehicle for mobilization of resources including capital and entrepreneurship, which would otherwise remain unutilised. The significant issues hindering the growth and development of small scale industries are lack of technology, inadequacies of skilled labour, delayed payments, poor quality, lack of appropriate infrastructure, and lack of marketing network. This sector needs to be nurtured and provided strong support services for its long-term profitable growth. SIDBI is trying to strike a balance between
financing and providing support services for the growth and development of small-scale sector.

Definition of MSME in accordance with MSMED Act 2006 the MSME is classified in two categories:

**Manufacturing Enterprise**

The enterprises engaged in the manufacturing or production of goods pertaining to any industry specified in first schedule of the Industries Development and Regulation Act 1951 or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use.

**Service Enterprise**

The enterprise engaged in providing or rendering of services.

**Table:1 Investment in Plant & Machinery**

<table>
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<tr>
<th>Enterprises</th>
<th>Manufacturing Sector</th>
<th>Service Sector</th>
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<tbody>
<tr>
<td>Micro</td>
<td>Up to Rs. 25 lacs</td>
<td>Up to Rs.10 lacs</td>
</tr>
<tr>
<td>Small</td>
<td>More than Rs. 25 Lacs but up to Rs. 5 crore.</td>
<td>More than Rs. 10 Lacs but up to Rs. 2 crore.</td>
</tr>
<tr>
<td>Medium</td>
<td>More than Rs. 5 crore but up to Rs. 10 crore.</td>
<td>More than Rs. 2 crore but up to Rs. 5 crore.</td>
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As an apex institution SIDBI bring into play the network of the banks and state financial institution, which have retail outlets for coordinating the development of the small-scale sector. SIDBI has entered into Memorandums of Understanding (MOUs) with 18 banks, government agencies, international agencies development institutions, and industry associations to make possible a coordinated approach for the development of the small-scale sector.
In Endeavour of SIDBI towards the development of MSMEs, it adopts a credit plus approach wherein, the bank also facilitates grant support for the promotion and development of sector to make it strong, vibrant and competitive. The promotion and development activities of the bank also include Micro Enterprise promotion, Entrepreneurship development, cluster development, capacity building of MSME sector and promoting Responsible Finance among Micro Finance Institutions.

**Review of Literature**

Sharma (2017) in her study of SIDBI in relation to its function especially in relation to dicer financing expressed that bank have done many efforts for the growth and development of SSIs and MSME in Rajasthan.

Yadav (2014) stated that SIDBI have done the lot of efforts for assisting the small scale units in Lucknow city but some more awareness is needed to boost up the SSIs in Lucknow city. SIDBI should also provide proper path and training to improve the financial conditions of small scale units in Lucknow city.

Rao (2013) observed that SIDBI should continue to identify the gaps in the MSME clusters and address those gaps through innovative solutions viz. loan syndication, capacity building of MSME sector, common facility centre, cluster diagnostic studies, credit facilitation centre, credit counselling and advisory services including market information, supporting skill development institutes, supporting incubation and innovation centers, setting up of website to address information asymmetry for the prospective and new entrepreneurs, coming out with various studies / reports / web-based solutions to address information gap, etc. These developmental initiatives would not only address the emerging needs of the sector, but also will create employment opportunities in this productive sector of the economy. References due to the changing demographics and awareness due to electronic media
especially internet the consumers have multiple options to choose from modern retail outlets.

Sharma (2008) stated his view about rural industrialisation and role of SIDBI in relation to solving the problems of sick small scale units. According to him SIDBI can play a significant role in development of rural industrialization as well as improving the condition of sick units by refinancing, discounting and rediscounting as well as financial assistance through indirect functions.

Research Methodology

Research design is descriptive in nature. The study is based on secondary data. The required information is collected from various past studies and other sources like magazines, newspaper, reports and websites which are qualified as reliable.

Objective of Study

- To study about the new schemes of SIDBI for the development of SSI and MSMEs.
- To aware readers and public about the various schemes of SIDBI.

New Schemes and recent Trends of SIDBI

**Trade Finance Scheme (TFS) / Raw Material Assistance (RMA):** Various MSMEs source their raw material from large Corporate /PSUs, whose terms are mostly on “cash on delivery (COD), i.e. no credit period is available to the MSMEs on their raw material purchases. This adversely affects the liquidity position of the MSMEs since they also have to provide credit on their sales. The scheme envisages financing such MSMEs for procuring raw materials / inventory which would ease the liquidity position of the MSMEs. The scheme would also help MSME units in availing benefits of bulk purchases such as cash discounts, etc. from their suppliers.
Green Loan Scheme: The main objective of this scheme is to provide assistance to MSMEs to meet capital expenditure, non-operational and intangible expenditure for improving energy efficiency / adopting cleaner production, measures / waste recycling, waste treatment and disposal, ISO certification, green rating, etc.

MSME Receivable Finance Scheme (MSME RFS): To mitigate the problem of delayed payments to MSMEs in respect of their credit sales to large purchase companies by offering finance against bills of exchange / Invoices arising out of such sales. The scheme covers discounting of bills of exchange / invoices arising out of sale of indigenous components / parts / sub-assemblies / accessories / intermediates by an MSME unit. Services provided by an enterprise in the services sector (eligible service provider) to purchaser companies are also covered. The scheme helps the MSMEs in :- (a) Quicker realization of receivables. (b) Discounting at competitive rates. (c) Efficient Cash Management.

Energy Efficiency/ Clean technology financing Scheme: This scheme is launched to encourage customers to upgrade technology to reduce energy consumption, enhance energy efficiency, reduce CO2 emissions and improve the profitability of the Indian MSMEs in the long run. Under different lines of credit (LOCs).

Direct Discounting Scheme (Equipments) [DDS (E)]: The scheme enables the purchase / sale of indigenous machinery / capital equipment by purchaser / manufacturer in the MSME sector through deferred payment facility by discounting the bills of exchange with SIDBI.

Scheme for facilitating payments to MSMEs in Construction Sector (CRE): Construction sector is one of the biggest business providers to MSME suppliers and service providers. Timely payment from construction entities is one of the major problems faced by these MSME vendors. The scheme will facilitate timely payments to such MSME vendors. The scheme is intended to cover Commercial Real Estate [CRE]
exposures in construction sector case, where the revenue will be by way of sale of [excluding solely residential projects].

**Promotional & Developmental Initiatives of SIDBI**

Being the apex financial institution for the MSME sector, SIDBI adopts a „Credit Plus“ approach under which Promotional & Developmental (P&D) activities are initiated with the twin strategy of creation of enterprises and strengthening of existing enterprises. SIDBI has benefitted the MSME sector through P&D activities which helped in setting up of over 1 lakh enterprises, generating employment of around 3 lakh and benefitting around 4 lakh persons.

An important P&D initiative of the Bank is the Micro Enterprises Promotion Programme (MEPP) which aims at promoting viable micro enterprises in rural areas leading to rural employment generation. Cumulatively, upto March 31, 2012, MEPP has been implemented in 121 districts in 24 States, thereby promoting more than 38,000 rural enterprises. Similarly, Entrepreneurship Development Programme (EDP) aims at promotion of self-employed ventures capable of generating employment opportunities, especially targeting less privileged sections of the society like Women, Scheduled Castes / Scheduled Tribes, minorities and the rural poor. As on March 31, 2012, cumulatively number of EDPs supported by the Bank for various target groups was 2894, benefitting more than 72,850 participants.

Similarly, the total number of Skill-cum-Technology Up gradation Programmes (STUPs) and Small Industries Management Programmes (SIMAPs) supported by the Bank since inception, till March 2012, were 1,504 and 295, respectively benefiting about 39700 participants. STUP aims at enhancing technology profile of MSME units and SIMAP targets qualified unemployed as well as industry-sponsored candidates, with the overall objective of providing competent managers to the MSME sector. SIDBI also accords special attention to the development of North Eastern
Region (NER) through a package of micro finance, rural industrialisation, entrepreneurship development, marketing support, etc.

The special initiatives being pursued in the NER encompass MEPP in 22 districts, 39 Cluster Development Programmes (CDP) and various vocational training programmes, marketing activities, seminars, etc. These programmes have so far promoted more than 2500 units in NER. To accelerate industrial development in the north eastern part of the country, the Bank has enlisted North Eastern Development Financial Institution (NEDFi) as an eligible primary lending institution for refinance of loans to micro and small enterprises and a refinance limit of `50 crore was sanctioned to it during FY 2011-12. Your Bank has also set up Counselling Centres Shillong (Meghalaya), Silchar (Assam), Aizawl (Mizoram), Gangtok (Sikkim) and Agartala (Tripura).

In 2012-13, the financial institution provided loans to Micro, Small and Medium Enterprises (MSMEs) directly (term loan under direct credit schemes, MSME receivable finance, bulk credit&Venture capital finance) and indirectly (Refinance, Equity assistance, Micro Finance including P&D assistance Resource support to institutions) had disbursed Rs 41,160 crore. SIDBI had identified four niche areas - risk capital, receivable financing, financing services sector and sustainable financing - where MSMEs need support. In the current fiscal, SIDBI set a 10 per cent higher disbursement target.

**Conclusion**

The biggest problem of MSMEs is the unduly delayed payments by large industry players. The other problems are lack of infrastructure inputs and banking support. Now it is obvious that Indian MSMEs are striving to be on par with their counterparts in technology development. While in countries like China, North Korea and Taiwan, apart from hand-holding by the Government and banks, large corporates support them through prompt payments. A strong business model was nurtured in these countries instead of a subsidy mindset adopted in India.
The MSME sector is yet to realize fully the benefits of liberalisation and
deregulation. There is a need to uplift the MSMEs not only
technologically, but otherwise too. MSMEs still face the problem of
obtaining the timely and affordable credit. The sector is still neglected by
the Banks and Financial Institutions in the Private Sector, which are
neglecting the mandatory 40% priority sector lending. The proposed
SME Stock Exchanges should take initiative to raise capital from the
public.

SIDBI would continue to identify the gaps in the MSME clusters and
address those gaps through innovative solutions viz. loan syndication,
capacity building of MSME sector, common facility centre, cluster
diagnostic studies, credit facilitation centre, credit counselling and
advisory services including market information, supporting skill
development institutes, supporting incubation and innovation centres,
setting up of website to address information asymmetry for the
prospective and new entrepreneurs, coming out with various studies /
reports / web-based solutions to address information gap, etc. These
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