Financing Schemes of Small Industries Development Bank of India for Micro, Small and Medium Enterprises

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ABSTRACT
Small Scale Industries have been nurturing the Nation’s Economy with generating 70 million Employment, contributing 48% of total Industrial Output, and 40 percent of Total Export of the nation. In the mean while MSMEs are facing innumerable problems since from inception and to taken up any developmental activities. But, there are some Institutions which have been boosting the confidence of entrepreneurs with their invaluable service. In the friction between problems and amicable ways and means to get rid of particular problem, many National, State and Private Institutions had sparked out. Those institutions can be classified as Financial and Non-Financial Institutions. In this study researcher is mainly focused on National Level financial institution SIDBI with the objective to study the financing schemes of SIDBI. The present study mainly relied on a plethora of existing information. Findings of the study reveal that the funding schemes of SIDBI are commendable. But, the present lending norms are very difficult to satisfy by the MSMEs. When, compare to unconventional.

I. INTRODUCTION
National Level Funding Agency Small Industries Development Bank of India (SIDBI) is the focal point of this study. It was established on April 2, 1990. Under the Small Industries Development Bank of India Act, 1989 envisaged SIDBI to be "the principal financial institution for the promotion, financing and development of industry in the MSME sector and to co-ordinate the functions of the institutions engaged in the promotion and financing or developing industry in the MSME sector and for matters connected therewith or incidental thereto. In this study an attempt has been made to give an overview of All SIDBI Schemes of Finance for MSMEs.

II. DEFINITION OF MICRO, SMALL AND MEDIUM ENTERPRISES
In accordance with the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, the Micro, Small and Medium Enterprises (MSME) are classified into two Classes:

Manufacturing Enterprises: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951. The Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.

Service Enterprises: The enterprises engaged in providing or rendering of services defined in terms of investment in equipment.

III. STATEMENT OF THE PROBLEM
Nations economy and the development of economy is concentrated on the development of MSME sector, in India large scale industries are having many avenues of financial assistance than MSMEs comparatively. Every second MSMEs are affirming financial resources availability. In order to promote the economy promotion of MSMEs sector is very important. Hence, to address financial problems of MSMEs SIDBI has emerged as a national level leading financial institution in India. But, the clarity of schemes of finance available is
To address this problem this study has been undertaken.

IV. OBJECTIVE OF THE STUDY

- To study the financing schemes of SIDBI.
- To study the Lending norms concern to each financing Scheme.

V. SCOPE OF THE STUDY AND DATA COLLECTION

The present study mainly focused on SIDBI and the facts and figures analyzed based on the information gathered from the SIDBI.

VI. AN OVERVIEW OF SIDBI

In view of the increasing need for financial assistance to small scale industries, a specialized financial institution exclusively for the small scale sector became necessary. Accordingly, the SIDBI was set up as a subsidiary of the IDBI; it commenced operations on April 2, 1990. SIDBI took over the Small industries development fund and the National Equity Fund set up earlier in IDBI, SIDBI has been assigned the role of apex financial institution for the promotion, financing and development of small scale sector and for co-ordinating the activities of other institutions engaged in providing assistance to small scale units.

Business Domain of SIDBI

The business domain of SIDBI consists of Micro, Small and Medium Enterprises (MSMEs), which contribute significantly to the national economy in terms of production, employment and exports. MSME sector is an important pillar of Indian economy as it contributes greatly to the growth of Indian economy with a vast network of around 3 crore units, creating employment of about 7 crore, manufacturing more than 6,000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. In addition, SIDBI's assistance also flows to the service sector including transport, health care, tourism sectors etc.


Objectives of SIDBI

Four basic objectives are set out in the SIDBI Charter. They are:
- Promotion
- Financing
- Development of industries in SSI
- Coordinating the functions of other institutions engaged similar activities

SIDBI is having following spare of activities.
- **Direct Finance**: Assistance to MSMEs, Service sector entities, Resource support to NBFCs/Other intermediaries, Infrastructure, etc.
- **Indirect Finance**: Refinance/STL to Banks, SFCs, etc.
- **Micro Credit**: Pioneers in micro credit movement in the country. Developed several leading MFIs. Assistance through MFIs.
- **Promotion & Development**: Organises and supports initiatives for development of MSME sector (EDP, Skill up gradation, RIP, etc.).
- **Associate Institutions**: SVCL, SMERA, ISTSL, CGTMSE & ISARC.
- **Nodal Agency**: For Government o India schemes like CLCSS, TUFS, TUFFPI and IDLSS.
**Channels of Assistance**

SIDBI's assistance to the small-scale sector is provided through 3 routes, they are shown in following figure.

![Channels of Assistance Diagram]

Source: SIDBI

**A. Direct Finance**

a) Setting up new units
b) Modernisation and quality upgradation:
   c) Technology development and modernisation fund scheme
d) ISO-9000 Scheme
e) Technology upgradation fund scheme for textile industries
f) Marketing finance
g) Development of industrial infrastructure for the SSI sector
h) International finance

**B. Indirect Finance**

SIDBI extends refinance support to primary lending Institutions such as Commercial Banks, State industrial Corporations, and Co-operative Banks etc, for the loans extended by them. Following are the schemes of indirect assistance.

a) Refinance
b) Bill rediscounting scheme
c) Resource support to institutions agencies engaged in financing SSIs

**C. Development and Support Services**

The promotional and developmental activities of the bank aim improving the inherent strength of small-scale sector on the one hand employment generation and economic rehabilitation of the rural poor on the other.

- Enterprise promotion with emphasis on rural industrialisation
- Human resource development in SSI sector.
- Technology up-gradation.
- Programmes on environment and quality management.
- Marketing assistance.
- Information dissemination

**Products and Services of SIDBI**

A stream of Products and Services available at Small Industries Development Bank of India are as follows.

a) Direct Credit Scheme
b) Receivable Finance Scheme
c) Seller-wise Receivable Finance Scheme
d) JICA Line of Credit for Energy Saving Projects
e) Risk Capital [Equity & Sub-debt]  
f) Term Loans with Credit Linked Capital Subsidy Scheme  
g) Term Loans covered under Credit Guarantee Trust for Micro & Small Enterprises

**A. Direct Credit Scheme**

- Retail Credit Schemes – Fund based Schemes for Term Loan Assistance
  - Direct Credit Scheme
  - Govt. Sponsored Scheme – CLCSS, TUFS, TUFFPI, IDLSS, etc.
  - MSME Scheme for Energy Saving Projects
  - SME IT Loan Scheme

- Schemes for Working Capital Assistance
  - Working Capital
  - MSME Receivable Finance Scheme (bills / invoice discounting)

- Risk Capital Assistance For growth oriented units with clear exit route
  - Equity
  - Quasi Equity

**Norms of Direct Credit Schemes**

SIDBI has arrangement with IDBI Bank and Government of India for providing long-term capital facilities. An overview of such Schemes are shown in the following table.

Table No. 2.1

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Norm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>New unit/ Expansion/ Modernisation/ Marketing/ R&amp;D/Working Capital/ in manufacturing and services segment</td>
</tr>
<tr>
<td>Nature of assistance</td>
<td>Term Loan</td>
</tr>
<tr>
<td><strong>Purpose</strong></td>
<td><strong>Norm</strong></td>
</tr>
<tr>
<td>--------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Tenure</strong></td>
<td>Need based. Generally, not more than 8 years including moratorium</td>
</tr>
<tr>
<td><strong>Interest rate</strong></td>
<td>Based on Risk Rating</td>
</tr>
<tr>
<td><strong>Overall DER</strong></td>
<td>Generally not more than 2:1</td>
</tr>
<tr>
<td><strong>DSCR</strong></td>
<td>Generally more than 1.5:1</td>
</tr>
<tr>
<td><strong>Asset Coverage</strong></td>
<td>1.3 for existing units and 1.4 for new units</td>
</tr>
</tbody>
</table>

*Source: SIDBI*

**Table No. 2.1**

**Table Showing An Overview of SME IT Loan Scheme**

<table>
<thead>
<tr>
<th><strong>Parameter</strong></th>
<th><strong>Norm</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purpose</strong></td>
<td>For acquiring IT related software / hardware from Intel service provider by MSMEs.</td>
</tr>
<tr>
<td><strong>Assistance</strong></td>
<td>Rs.10-25 lakhs</td>
</tr>
<tr>
<td><strong>Overall DER</strong></td>
<td>Maximum 2.5 : 1</td>
</tr>
<tr>
<td><strong>Interest Rate</strong></td>
<td>Based on Risk Rating</td>
</tr>
<tr>
<td><strong>Security</strong></td>
<td>Need based collateral security / CGTMSE coverage</td>
</tr>
<tr>
<td><strong>Repayment period</strong></td>
<td>Maximum 3 years.</td>
</tr>
</tbody>
</table>

*Source: SIDBI*

**Norms of Working Capital Scheme**

SIDBI has arrangement with IDBI Bank for providing working capital facilities to SIDBI customers on IDBI Bank’s banking platform.

**Table No. 2.1**

**Table Showing An Overview of Working Capital Schemes**

<table>
<thead>
<tr>
<th><strong>Parameter</strong></th>
<th><strong>Norm</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purpose</strong></td>
<td>To provide working capital facility to existing / new customers of SIDBI who avails term loan for capital expenditure.</td>
</tr>
<tr>
<td><strong>Max. Assistance</strong></td>
<td>Initial limit shall not be more than Rs.5 crore.</td>
</tr>
<tr>
<td>Tenure</td>
<td>Limit is sanctioned for one year which may be renewed annually.</td>
</tr>
<tr>
<td>------------------------</td>
<td>-----------------------------------------------------------------</td>
</tr>
<tr>
<td>Interest rate</td>
<td>Based on Risk Rating</td>
</tr>
<tr>
<td>Financial norms</td>
<td>Current Ratio : 1.33 TOL/TNW : 4:1 Min interest coverage : 1.5</td>
</tr>
<tr>
<td>Asset Coverage</td>
<td>1.3 for existing units and 1.4 for new units</td>
</tr>
</tbody>
</table>

**Norms of Risk Capital finance**
- **Objective**: To provide risk capital to well performing MSME units having high potential for growth.
- **Instruments**: Equity/quasi equity type of instruments.
- **Maximum Assistance**: Rs.5 crore per unit, however higher assistance can be considered on case to case basis.

**B. Receivable Finance Scheme**
- **Purpose**
  Assistance against supplies made by SME vendors to large Corporate
  - **Eligible SME vendors**
    Manufacturing units/ Service providers/ Transporters/ IT vendors
  - **Form of assistance**
    Discounting of Bills of Exchange accepted by purchasers

**Eligibility of Purchaser**

<table>
<thead>
<tr>
<th>Turnover:</th>
<th>With Security</th>
<th>Without security</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs 30 crore</td>
<td>Rs 300 crore</td>
</tr>
<tr>
<td>Net worth:</td>
<td>Rs 6 crore</td>
<td>Rs 100 crore</td>
</tr>
</tbody>
</table>

Profit /dividend paying track record

**Tenure** Upto 120 days

**Discounting Mechanism**
Procedural aspects of the receivable finance scheme are as follows.
- Vendors draw usance bills *(no stamping required)* on the purchasers for goods supplied which are duly accepted by the purchaser for payment at the designated office of SIDBI.
- The bills are thereafter discounted by SIDBI and the proceeds (after deduction of necessary charges) remitted to the suppliers.
- Purchasers should retire the bills on due dates.
The bill of exchange should be accompanied by invoice and proof of delivery of goods like delivery challan/ lorry receipt with due acknowledgment from the purchaser regarding receipt of goods.

Period of unexpired usance of the bill shall not exceed 90 days while tenor (period between the date of dispatch of goods to the due date of bill of exchange) of the bill shall not exceed 120 days.

Interest will be charged for delayed retirement of bills from the purchaser for the period of delay.

The interest will be charged as per the condition stipulated in the LoI.

**Seller-wise Receivable Finance Scheme**

**Purpose**

To improve the cash flow and liquidity of units in the Micro, Small & Medium Enterprises (MSME) sector/eligible service providers by providing them with immediate financial assistance against the goods sold and/or services rendered to purchaser companies in the public/private sector with satisfactory market standing.

**Eligibility - Seller**

The Seller should be a MSME/eligible service provider meeting the following criteria:

(i) The unit should have been in operation for at least 5 years and earned net profit (PAT) in at least 2 out of the 3 previous FYs (including the immediate preceding FY) with satisfactory financial position as evidenced from analysis of the balance sheet;

(ii) not in default to banks/financial institutions;

(iii) the name of the Seller Unit and/or its Directors/Partners/Proprietor should not appear in the CIBIL defaulters' list/RBI's Wilful Defaulters' List/Caution List of the Bank/Terrorist list and Specific Approval List (SAL), wherever applicable.

**Eligibility - Purchaser**

Established/financially sound purchasers

The purchaser(s) should normally have been procuring items from the Seller for a period of not less than one year with satisfactory acceptance of goods/payment record.

**Credit period**

The credit period based on the credit period allowed by the Seller to the purchaser in the past (terms of payment in the purchase orders may be examined).

Maximum usance period of the bills shall not normally exceed 90 days.

However, longer usance period could be considered based on merits of individual proposals.

**C. JICA Line of Credit (Scheme for Energy Saving Project in MSME Sector)**

**Scheme for Energy Saving Projects**

- New/existing MSME units, as per the definition of the MSMED Act, shall be eligible for assistance under the scheme. However, units graduating out of medium scale will not be eligible for assistance.
- Existing units with satisfactory track record of past performance and sound financial position/not in default to institutions/banks.
- The projects which will be eligible for finance under the Line will be energy saving projects which are to be screened as per the Energy Saving/activity List.
Table No. 2.1
Table Showing an overview of Norms of JICA Line of Credit
(Scheme for Energy Saving Project in MSME Sector)

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Norm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>Investment in energy saving capital equipments / production processes.</td>
</tr>
<tr>
<td>Minimum Assistance</td>
<td>Rs.10 lakh</td>
</tr>
<tr>
<td>Overall DER</td>
<td>Maximum 2.5 : 1</td>
</tr>
</tbody>
</table>
| Interest Rate        | Fixed : 9.5-10% p.a.  
                        | Floating : PLR -1.25 to PLR -0.25% (present PLR 11%)               |
| Asset coverage       | Minimum 1.4 for new unit and 1.3 for existing unit                  |
| Repayment period     | Need based. Normally, should not exceed 7 years.                    |
| Eligible investments | List of equipments / technologies / processes is available on SIDBI  
                        | website : www.SIDBI.in                                             |
| Any other incentive  | CLCSS / TUFS or any other Government Scheme benefit shall be available, if eligible. |
**SIDBI: USP for MSMEs**

- **Competitive Rate of Interest**: Market maker for SME segment.
- Flexible approach for key aspects like security, financial parameters, based on unit standing.
- **Simple business processes**: Credit Appraisal & Rating Technique (CART). SIDBI appraisal techniques recognised across the banking sector.
- **Quick decision making**: Effective integration of technology.
- Qualified & professional manpower.
- Tailor made and customised products services.
- Quick disbursement of GoI grants / subsidies.
- 11 branches in Maharashtra (4 in Mumbai: Nariman Point, BKC, Andheri & Thane)

**Government Subsidy Schemes**

SIDBI is acting as a nodal agency of Government of India by facilitating some government schemes for MSMEs.

- Credit Linked Capital Subsidy Scheme [CLCSS]
- Technology Upgradation Scheme for Textile Industry (TUFS)
- Scheme of Technology Upgradation / Setting Up / Modernisation / Expansion of Food Processing Industries [Food Processing]

**D. Credit Linked Capital Subsidy Scheme (CLCSS) – An overview**

**CLCSS - ELIGIBLE PLIs**

- Scheduled Commercial Banks
- Eligible Cooperative Banks (other than UCBs)
- State Financial Corporations (SFCs)
- Eligible Regional Rural Banks (RRBs)
- National Small Industries Corporation (NSIC)
- North Eastern Development Financial Institution (NEDFI)

**CLCSS - ELIGIBLE BORROWERS**

- Sole Proprietorships
- Partnerships
- Co-operative Societies
- Private and Public Limited Companies in SSI sector

**CLCSS - TYPE OF UNITS**

- Units which upgrade with state of the art technology with or without expansion
- New units which set up their facilities only with the appropriate and proven TECHNOLOGY approved by GTAB
- The units should be registered with State Directorate of Industries.

Maximum Ceiling of Loan Eligible for Support (For loans sanctioned on or after 29/09/2005)

- 15% of the investment in eligible plant & machinery
- Ceiling on Loan- Rs.100 lakh
- Ceiling on subsidy-Rs. 15 lakh

**Other policy changes**

- 9 PLIs viz; SBI, Canara Bank, Bank of Baroda, PNB, Bank of India, Andhra Bank, State Bank of Bikaner & Jaipur, TIIC, NSIC have been appointed as additional Nodal Agencies for settling the claims of their own assisted units.
- Urban Co-operative Banks co-opted by SIDBI under TUFS are now made eligible
- The unit shall be in operation for a period of at least three years from the date of disbursement of subsidy otherwise the subsidy shall be refunded to GoI.

**E. TUF Scheme for Textile Industry**

**Technology Upgradation Definition**

- Technology Upgradation is a continuous process.
- It means induction of state-of-the-art technology.
- It also means a significant step up in technology level to a substantially higher one involving improved productivity or/and quality product or environment conditions.
- Introduction of in-house testing and on-line quality control would also qualify for assistance.
- A list of well-established and improved technology is given in the booklet.

**Scope of the Scheme**

1. Silk reeling and twisting
2. Wool scouring and combing
3. Synthetic filament yarn texturising, crimping and twisting
4. Spinning
5. Viscose Filament Yarn (VFY)
6. Weaving, knitting including non-wovens, fabric embroidery and technical textiles.
7. Garment/Made-up manufacturing
8. Processing of fibres, yarns, fabrics, garments and made-ups

**Nature of unit (Types)**

- Existing unit with or without expansion
- New units with appropriate eligible technology
- SSI Status as on date of application
- Segment of Textile Industry for the purpose of SSI investment Limit( applicability in the context of MSMED Act.2006)

**Incentives**

- 5% interest reimbursement of the normal interest charged by the lending agency on rupee term loan/DPG Scheme in respect of rupee term loans OR
cover for foreign exchange fluctuations (interest and repayment) up to 5% p.a.

OR

- Front ended 15% credit linked capital subsidy for SSIs OR
- Front ended 20% credit linked capital subsidy for small scale power loom sector

OR

- 10% credit linked capital subsidy for Textile Processing units in addition to 5% interest reimbursement OR
- Front ended 15% credit linked capital subsidy for SSIs

OR

- Front ended 20% credit linked capital subsidy for small scale power loom sector

OR

- 10% credit linked capital subsidy for Textile Processing units in addition to 5% interest reimbursement

**Eligibility of machinery (Type)**

- Technology levels are benchmarked in terms of specified machinery
- Generally new machinery
- Specified imported second hand machinery allowed with specified vintage
- Eligibility of any other textile machinery equal to or higher than the benchmarked technology not listed in the annexures or developed in the course of the operation of TUFS will be, suo motu or on reference, specifically determined by the TAMC.
- Cotton Ginning and Pressing - Annex – A.
- Spinning/Silk Reeling & Twisting / Wool scouring & Combing / Synthetic filament yarn Texturising, Crimping & Twisting- Annex - B.
- Manufacturing of viscose filament yarn and viscose staple fibre Annex – C.
- Weaving / Knitting including non-wovens and Technical Textiles – Annex-D(1&2)
- Garment/Made-up manufacturing- Annex – E
- Processing of fibre / Yarn / Fabrics / Garments / made-ups Annex–F(1-4)
- Jute industry Annex – G.
- Energy saving & process control equipments for various sectors -Annex-H
- Machinery eligible under 20% CLCS-TUFS for power loom sector Annex-I
- Machinery eligible under 10% capital subsidy for processing sector Annex-J

**F. Scheme of Technology Upgradation/Setting up /Modernisation /Expansion of Food Processing Industries**

**Objective of the scheme**

- Importance of food processing industry - huge potential for employment generation, increasing the farmers’ income and export.
- The Scheme aims at upgradation of processing capabilities.

**Amount of assistance and eligibility**

- 25% of the cost of plant & machinery and technical civil works subject to a maximum of Rs.50 lakhs in general areas and 33% up to Rs.75 lakh in difficult areas (Jammu & Kashmir, Himachal Pradesh, Uttarakhand, Sikkim, North-Eastern States, Andaman & Nicobar Islands, Lakshadweep and Integrated Tribal Development Project (ITDP) areas).
- Only new Plant & Machinery eligible. Technical civil works include civil works for functional purposes and exclude boundary wall, office buildings, guest house, canteen and roads.
- The application should be made by the entrepreneur before commencement of commercial production.
- To obviate duplication of grants, beneficiaries need to submit affidavits.
- Scheme covers specified sectors for activities leading to value addition and shelf-life enhancement.
- Individuals, firms, cooperatives, companies and PSUs eligible.

**Scope & Spread of the scheme**

- Sectors in food processing such as fruits & vegetables, milk products, meat, poultry, fishery, cereal/other consumer food products, oilseeds products, rice milling, flour milling, pulse processing and such other agrihorticultural sectors including food flavours and colours, oleoresins, spices, coconut, mushrooms and hops are covered under the Scheme.
- The activities of aerated water, packaged drinking water and soft drink are not considered.
- The Banks/their co-opted PLIs to ensure adequate regional spread of assistance.
- Sanctions under the scheme to women, SC/STs to be given priority.

**Disbursement of Grant**

- Grant to be released in two equal installments. First installment after the firm has utilized 50% of the term loan and 50% of promoter’s contribution and on production of certain documents by the firm:
- An Agreement on a non-judicial stamp paper of a value not less than of Rs.100/- duly notarized in a format prescribed by the Ministry.
VII. CONCLUSION

Small Industries Development Bank of India is performing commendable work in the field of industrial finance. It is providing financial and non-financial assistance to Micro, Small and Medium Enterprises for MSMEs development. The schemes of financing are classified as Fund based and Non-fund based schemes in the present study only fund based financing schemes have been presenter. Finally I suggest all Industrial financing Institutions to cut down the interest rates and simplify the norms which laid down by the respective funding agencies to help MSMEs to carve the niche in their future endeavor.

REFERENCES