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A STUDY ROLE OF SIDBI'S IN GROWTH AND DEVELOPMENT OF SSI & MSME IN INDIA

Dr. RAJ KUMAR AGRAWAL
ASST. PROFESSOR
TH. H.N. SINGH COLLEGE (ALLAHABAD STATE UNIVERSITY)
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ABSTRACT

The SIDBI Banks being an important Nerve of Modern organized society can play an important role in the SSI transformation. They provide the infrastructure on which agriculture industries and trade of nation depend. They can allocate available resources by Mobilizing Deposits and advancing credit into the best possible uses according to national priorities. The small – scale sector today has to face competition not only from multinationals but also from large domestic producers. The WTO regulation and removal of quantitative Restriction have further mitigated the problems of small – scale industries. They need of the hour in Technology upgradation. This paper is an attempt to explain the rule of the SIDBI in development SSI. It also includes an overview of New Scheme of SIDBI.

KEYWORDS

SIDBI, RBI, small-scale industries, export promotion.

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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 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 expand 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, NBFs 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 (TUFFS), Credit Linked Capital Subsidy Scheme (CLCSS), Integrated Development of Leather Sector Scheme and Development of Infrastructure Development Projects etc.

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.

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

Enterprises	Manufacturing Sector	Service Sector
Micro	Up to Rs. 25 lacs	Up to Rs.10 lacs
Small	More than Rs. 25 Lacs but up to Rs. 5 crore.	More than Rs. 10 Lacs but up to Rs. 2 crore.
Medium	More than Rs. 5 crore but up to Rs. 10 crore.	More than Rs. 2 crore but up to Rs. 5 crore.

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.

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.

OBJECTIVES OF THE STUDY

1. To study about the new schemes of SIDBI for the development of SSI and MSMEs.
2. 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 benefitting 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 counseling 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 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.

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