



Fueling MSMEs, Building Nation- SIDBI

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ABSTRACT

SIDBI is the Principal Financial Institution engaged in Promotion, Financing & Development of the Micro, Small and Medium Enterprises (MSME) sector, and in coordinating the functions of various Institutions engaged in similar activities. COVID-19 pandemic has affected the supply chains and operations of countless MSMEs across the globe including India, on multiple occasions. Both the Government and the RBI introduced number of initiatives to improve the liquidity in the system, access to finance to affected segments of the economy and promote growth during these challenging times.

Key words: MSMEs, SIDBI, SHG S, Venture capital, Employment

INTRODUCTION

SIDBI was set up on April 2, 1990 under an Act of Parliament, to act as the principal Financial Institution for promotion, financing and development of the MSME sector as well as for coordination of functions of institutions engaged in similar activities.

Framework and Scope of Activities SIDBI was set up as an apex bank for tiny and small industries. In the almost three decades of its existence, SIDBI has been primarily engaged in the re-finance business, much of which has been through funds provided to it from shortfall of priority sector lending by banks. SIDBI has also made forays into direct lending, equity support and in supporting the setting up of institutions such as Rating Agency (Acuite Ratings & Research), an Asset Reconstruction Company (ISARC), a Trustee Company (STCL), a Venture Capital Company (SVCL), MUDRA, a TReDS platform (R-XIL), a Technology Company (ISTSL), a lending platform (PSB loans in 59 minutes) etc. It also holds equity shares in many SFCs and Technology

Consultancy Organisations. SIDBI has also been extensively involved in supporting Startups.

SIDBI's re-finance book has been steadily increasing but its contribution to overall MSME finance remains negligible. Its attempts at direct lending and equity support have been marked by very high level of delinquencies. During its visits across the country, the Committee repeatedly received feedback from State Governments regarding SIDBI's lack of connect with State Governments or with State programmes for MSME development.

Some recent initiatives by SIDBI such as the PSBLoanIn59Minutes, publication such as MSME Pulse, Micro Finance Pulse, MSME Sentiments Index, etc., have been commendable initiatives and highlight its ability to induce new ways of lending and make available knowledge products for a wider audience. These knowledge products anticipate what SIDBI should be doing more of. Instead of attempting to become another direct lender along with Public Sector Banks, Private

Sector Banks, RRBs, Small Finance Banks and a number of NBFCs and FinTech Companies, as an apex bank, SIDBI has to be proactive in addressing market failures in MSME credit, develop new instruments for adoption by the market, play the role of market maker and foster partnerships aimed at capacity building of lenders so that supply side improvements occur thereby helping meet unmet demand for MSME credit.

The Committee recommends a more focused engagement of SIDBI with State Governments for MSME development and promotion. This could take various forms as indicated below: a. Use of Priority Sector Shortfall (PSS) funds to create a low cost lending window for State Governments for infrastructure projects in clusters, civil works for rehabilitation of existing industrial estates and setting up of new industrial estates. This would require RBI approval and could be structured on the lines of the Rural Infrastructure Development Fund (RIDF). b. Helping State Governments in designing or operating schemes for equity support, interest subvention, resolution of stressed MSMEs, learning events for MSME entrepreneurs including field visits to well performing clusters, etc. c. Collaborating with State Governments to get MSME units from the State onto digital platforms such as PSBLoansIn59Minutes, Stock Exchange listing, e-commerce platforms, etc. ii. SIDBI should help deepen credit markets for MSMEs in underserved districts and regions by handholding private lenders such as NBFCs and MFIs for increasing their presence and reach, working with local level bankers, differential pricing for refinance, awareness programmes, etc. The other areas where SIDBI can contribute viz., developing and deploying additional instruments for debt and equity which help crystallise new sources of funding for MSMEs and MSME lenders such as first loss guarantees, Pass Through Certificates (PTCs), etc. For this it needs partnership arrangements and may, if required, raise funds directly from the market based on its AAA rating. iii. SIDBI should gradually take on a role of a market maker for SME debt on select platforms. iv. SIDBI should review investments in SFCs, TCOs and other such subsidiaries/ associate companies where the responsibility of incubation is over. v. SIDBI should continue to roll out of knowledge products including in vernacular languages.

EXIT POLICY FOR MSMEs

Often, in spite of best efforts by the promoter and accommodation by the lender, MSME units fail and such units move towards insolvency or individual bankruptcy. In many economies, MSMEs are among the largest commercial users of the insolvency system. Yet, many jurisdictions treat them at par for insolvency purposes, as other corporate entities, or consumers, without regard to their unique attributes. MSME sector, particularly micro enterprises, are in informal segment. Indeed, in India by an overwhelming majority, MSMEs are proprietorship or partnership firms. Therefore, there is a need for an appropriate legal system to address insolvency, which can play a critical role for smoother exit of MSMEs from their present business. Effective insolvency regimes, if properly implemented, may mitigate many of the challenges facing MSMEs. The IBC provides for a differentiated regime for insolvency/bankruptcy of firms, proprietary firms and individuals. Delegated legislation/rules in this regard are currently under discussion. The finalization of these rules can boost lender confidence because lenders will have more certainty and predictability regarding the recovery of defaulted loans. This can increase the amount of credit available to MSME in Indian economy and in turn reduce the credit gap. Having an efficient, expeditious insolvency system in place that helps MSME or swiftly reallocates their productive assets to more efficient activities is paramount.

Advantages of Insolvency and Bankruptcy Code for MSMEs Better legislation can reduce the cost of credit. This is important for MSMEs because a lower cost of credit makes financing more accessible and affordable. In Brazil, reforms to its insolvency legislation caused an average reduction in the cost of credit ranging from 7.8 percent to 16.8 percent from the level prior to the reforms being enacted. A study involving SMEs in France, Germany, and United Kingdom found that banks priced their loans based on their expected rights in the event of a default. Conversely, "creditor unfriendly" insolvency regimes resulted in higher costs. In United Kingdom, revised reorganization laws resulted in new owners retaining all employees of enterprises in 65 percent of receivership and administration cases, where the business was sold as a going concern. Job preservation for MSME employees is particularly important because

MSMEs are the largest source of employment in many economies.

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SIDBI Venture Capital Limited (SVCL)

The venture capital arm of SIDBI, presently acts as the investment manager for eight funds viz. National Venture Fund for Software and Information Technology Industry (NFSIT) since fully divested, SME Growth Fund (SGF), India Opportunities Fund (IOF), Samridhi Fund (SF), TEX Fund (TF), West Bengal MSME VC Fund (WBF), Maharashtra State Social Venture Fund (MSF) which are fully invested and Ubharte Sitaare Fund (USF) which is currently in investment phase. As on March 31, 2022, the total net outstanding corpus of the funds is ₹676.82 crore

CONCLUSION

SIDBI is the Principal Financial Institution engaged in Promotion, Financing & Development of the Micro, Small and Medium Enterprises (MSME) sector, and in coordinating the functions of various Institutions engaged in similar activities. COVID-19 pandemic has affected the supply chains and operations of countless MSMEs across the globe including India, on multiple occasions. Both the Government and the RBI introduced number of initiatives to improve the liquidity in the system, access to finance to affected segments of the economy and promote growth during these challenging times. The operations of the Bank, during FY 2022, were in line with the aim of Government and focused on revitalizing the MSME sector. Various initiatives and

schemes of the Bank were aligned both on the financial and promotion & development fronts to enable MSMEs to first survive, then revive and now rise to capture the next wave of growth. Despite being a pandemic-disrupted year, the Bank has maintained its leadership position and delivered growth in majority of key financial parameters. The Bank has achieved another milestone with the outstanding business portfolio of the Bank first time crossing the Rupees 2 Trillion mark during FY 2022, thereby registering a growth of 29% over FY 2021. The Asset Base of the Bank stood at ₹2,47,379 crore as on March 31, 2022 with Y-o-Y growth of 29%. As the world adapts to 'new normal', SIDBI shall continue its efforts to empower the MSME sector, so vital for a resilient economy, through innovative interventions both at product & process levels thereby making MSMEs 'Future Champions'.

Conflict of interest statement

Authors declare that they do not have any conflict of interest.

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