

Financial Assistance to MSMEs with References to Government

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Abstract: A business loan provided under a government scheme or program is always favorable due to its lower interest rates. Besides, government loan schemes help you suffice your day-to-day business funding requirements. In India, both state and central government have framed various policies and schemes to cater to the financial requirement of small businesses across the country. Many public sector banks like State Bank of India (SBI), Andhra Bank, Canara Bank, Allahabad Bank and Bank of Baroda offer various financial schemes to small business owners. These schemes help the entrepreneurs obtain financial products and services according to their business requirements. In India, you will find various Government loan schemes specified for small business both from state and central government to cater to the financial requirement of small businesses across the country. Many public sector banks like State Bank of India (SBI), Andhra Bank, Canara Bank, Allahabad Bank and Bank of Baroda offer various financial schemes to small business owners. These schemes help the entrepreneurs obtain financial products and services according to their business requirements. Here you can find a list of Government loan schemes for small business owners

Keywords: Collateral, MICs, LDCs, HICs, MUN, IDLSS and SIDBI.

I. INTRODUCTION

As per the Prime Minister's Task Force Report on MSMEs (2010), the banks shall have to achieve 20 per cent year-on-year growth in credit to micro and small enterprises (MSEs), 10 per cent annual growth in the number of micro enterprise accounts and also have to allocate 60 per cent of the MSE advances to the micro enterprises. The fulfillment of these provisions is being regularly monitored by the Reserve Bank of India and Government of India. In addition, to facilitate easy flow of Collateral free credit to Micro, Small and Medium Enterprises (MSMEs), the Government has been operating Credit Guarantee Fund Scheme for Micro and Small Enterprises. The Reserve Bank of India (RBI) has also issued guidelines for banks to mandatorily dispense with collateral requirement for loans upto Rs.10.00 lakh to MSEs. The Ministry also implements Prime Minister's Employment Generation Programme and Credit Linked Capital Subsidy Scheme, wherein margin money and capital subsidy are given to bring down the effective cost of loan. The Government is promoting MSME sector units which are self financed or funded by non-institutional sources through Marketing Development Programme, Cluster Development Programme, Entrepreneurship Development Programmes and National Manufacturing Competiveness Programme etc.

Ministry of Micro, Small and Medium Enterprises does not have a proposal to extend the Joint Liability Mechanism to MSMEs. Joint Liability Mechanism has utility in a set up of Micro Finance Programmes and Ministry of MSME does not currently have a Scheme on Micro Finance.

The earlier concept of 'Industries' has been changed to 'Enterprises' • Enterprises have been classified broadly into:

(i) Enterprises engaged in the Manufacture / production of Goods pertaining to any industry; &
(ii) Enterprises engaged in providing / Rendering of services. • Manufacturing enterprises have been defined in terms of investment in plant and machinery (excluding land & buildings) and further classified into :

- Micro Enterprises - investment up to Rs.25 lakh.

- Small Enterprises - investment above Rs.25 lakh & up to Rs. 5 crore

- Medium Enterprises - investment above Rs. 5 crore & up to Rs.10 crore.

• Service enterprises have been defined in terms of their investment in equipment (excluding land & buildings) and further classified into:

- Micro Enterprises – investment up to Rs.10 lakh.

- Small Enterprises – investment above Rs.10 lakh & up to Rs.2 crore.

- Medium Enterprises–investment above Rs. 2 crore & up to Rs. 5 crore

It is not necessary to engage in manufacturing activity for self-employment. One can set up service enterprises as well

II. CHALLENGES

MSMEs are, collectively, the largest employers in many low-income countries, yet their viability can be threatened by a lack of access to such risk-management tools as savings, insurance and credit. Their growth is often stifled by restricted access to credit, equity and payments services.

Access to financial services can therefore boost job creation, raise income, reduce vulnerability and increase investments in human capital. MSMEs account for a significant share of employment and GDP around the world, but, when they have limited access to finance, the economy suffers a series of negative consequences: Economic and social opportunities are restricted, enterprise creation and growth are restrained, households and enterprises are more vulnerable to threats, and payments are costlier and less safe.

A World Bank Enterprise Survey found that the smaller firms are less likely to have access to capital – a factor that constrains their ability to grow and become more productive. They are also more likely to rely on informal sources of capital – a factor that is often negatively associated with growth and firm performance. Access to finance is disproportionately difficult for smaller firms in the least developed countries (LDCs), with 41 percent of SMEs in LDCs reporting access to finance as a major constraint to their growth and development, by comparison to 30 percent in middle-income countries (MICs, LDCs) and only 15 percent in high-income countries (HICs).

III. GOVERNMENT LOAN SCHEMES FOR SMALL SCALE BUSINESSES IN INDIA

The Credit Guarantee Fund Scheme

The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGMSE) was launched by the Government of India to provide collateral-free credit to Indian MSMEs. Both the existing and the new enterprises are eligible for the scheme. The Ministry of Micro, Small and Medium Enterprises and Small Industries Development Bank of India (SIDBI) established a trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement the scheme.

The scheme provides credit facilities in the form of term loans and working capital facility of up to Rs. 100 lakh per borrowing unit. The amount is contributed by the Government and SIDBI in the ratio of 4:1, respectively. The scheme also offers rehabilitation assistance to sick units covered under the guarantee scheme.

Credit Link Capital Subsidy Scheme for Technology Upgradation

Upgradation of the process as well as the corresponding plant and machinery is important to help SMEs reduce the cost of production and remain price competitive in the global market. To help SMEs flourish in international trade markets, the Ministry of Small Scale Industries (SSI) runs a scheme for technology upgradations of Small Scale Industries. Known as the Credit Linked Capital Subsidy Scheme (CLCSS), it aims at facilitating technology upgradations by providing an upfront capital subsidy of 15% (limited to maximum Rs.15 lakhs) to SSI units for credit availed by them for the modernisation of their plant and machinery. All sole proprietorship, partnership firms, cooperative, private and public limited companies are eligible for this scheme. Since the inception of this scheme, more than 28,287 units have availed subsidy of Rs.1619.32 crore.

Year	No. of MSE Beneficiaries	Total Amount of subsidy released (Rs. Crore)
2001-02 to 2011-12	16295	854.05
2012-13	5713	343.79
2013-14	6279	421.48

2014-15	7246	448.85
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Small Industries Development Bank of India (SIDBI)

Small Industries Development Bank of India (SIDBI) started its small business funding programs way back in 1990. Established by an act of Parliament, SIDBI is now one of the most illustrious names among the government financial institutions. This loan has played an active role in the promotion and development of the small business industry. Various schemes provided by SIDBI are enlisted below:

- Direct Assistance Scheme
- Indirect Assistance Scheme
- Promotional and Development Activities
- National Equity Fund, Scheme
- Technology Development and Modernization Fund Scheme
- Single Window Scheme
- Mahila Udyam Nidhi (MUN)
- Scheme and Equipment Finance Scheme
- Integrated Development of Leather Sector Scheme (IDLSS, SIDBI)
- FPTUFS – Scheme for Food Processing Industries

National Small Industries Corporation Limited (NSIC)

National Small Industries Corporation Limited (NSIC) came into effect in the year 1999 with an objective of encouraging the small scale industries in the country. The prime feature of NSIC is to import machines on hire-purchase terms. It lay emphasis on supplying and distributing both indigenous and imported raw material as well as on exporting the products of small business units. Besides, it also creates awareness of advancements occurring in the field of small scale industries.

National Bank for Agriculture and Rural Development (NABARD)

National Bank for Agriculture and Rural Development or NABARD came into existence mainly for promoting agriculture-based rural business enterprises. NABARD mostly offers financial assistance to small scale industries viz; cottage and village industry

Market Development Assistance Scheme for MSMEs

To help Indian manufacturing SMEs gain traction in the international markets, the Market Development Assistance Scheme for MSMEs offers funding for participation in international trade fairs and exhibitions under MSME India stall. It also offers funding for sector-specific market studies by industry associations, export promotion councils, and FIEO. This scheme offers reimbursement of 75% of a one-time registration fee and 75% of annual fees (recurring) paid to GSI by SMEs for the first three years for the bar code.

Technology and Quality Upgradation Support to MSMEs

This scheme aims at sensitizing the manufacturing MSME sector to use energy efficient technologies and manufacturing processes in order to reduce production cost and emissions of harmful gasses. The scheme also aims to improve the product quality of MSMEs to encourage them towards becoming globally competitive. For this, the Government of India provides financial support to the extent of 75% of the actual expenditure to help to manufacture MSMEs buy energy efficient technologies for production.

Mini Tools Room and Training Centre Scheme

To assist state the Governments set up Mini Tool Room and Training Centres, the Government of India provides financial assistance in the form of one-time grant-in-aid. The financial aid equals to 90% of the cost of machinery/equipment (maximum to Rs. 9 crores) in case new Mini Tool Room has to be created and 75% of the cost (maximum to Rs. 7.50 crore) in case an existing room has to be upgraded. The main objective of this scheme is to develop more tool room facilities in order to provide technological support to the MSMEs and training facility in tool manufacturing and tool design to create a workforce of skilled workers, supervisors, engineers/designers, etc.

MUDRA Loan

Mudra stands for Micro-Units Development and Refinance Agency Ltd. This organization has been established by Government of India for development and refinancing activities relating to micro units. Simply with the vision of – ‘Funding the Unfunded’.

Small organizations, companies, startup entrepreneurs of micro units in India face the lack of formal financial support in starting or growing stage of their small businesses.

Mudra bank loan initiative has been taken to provide low-cost funding for MFI (Micro Finance Institutes). MUDRA would be responsible for refinancing all financiers or financial institutions engaged in the financing of Small Businesses, Societies, Trusts Section 8 Companies, Co-operative Societies, Small Banks, Scheduled Commercial Banks and Rural Banks which are in the business of lending to micro or small businesses engaged in manufacturing, trading and services activities.

Role of NSIC

The National Small Industries Corporation (NSIC) has signed a pact with State Bank of India for providing affordable and easy credit to small-and- medium-sized units. NSIC also has such agreements with various banks such as YES Bank, HSBC, Axis Bank, Union Bank of India and Central Bank of India. NSIC has signed an agreement with SBI to facilitate easy credit to MSMEs at a reasonable rate and we hope it will really help these units. More and more banks are willing to sign similar agreements with NSIC as they want Micro, Small and Medium Enterprises (MSMEs) to be their customers, Kumar said.

Most of these enterprises face credit crunch as they fail to fulfill collateral requirements and have limited access to equity capital. NSIC is trying to sign this pact with the remaining banks so that small units get easy credit flow in every part of the country. Also, the MSME Ministry has been meeting various banks to persuade them to improve flow of credit to the small sector.

The Prime Minister's Task Force on MSMEs had recommended 20% year-on-year growth in credit to MSEs to ensure enhanced credit flow. However, most of these units still face problems in getting easy access to finance. Meanwhile, NSIC presented a dividend cheque of Rs 12.47 crore to the its administrative ministry, the Ministry of MSME, for the 2012-13 fiscal. In 2011-12, the Corporation had given a dividend cheque of Rs 8.24 crore to the government. NSIC said it has crossed a turnover of Rs 13,901 crore during 2012-13, recording a growth of 24% over the previous year. The Corporation is engaged in promotion, assistance and fostering the growth of MSMEs in the country. It provides technology, marketing and financial support services to such units. The MSME sector contributes 8% to India's Gross Domestic Product (GDP), its share in the country's total exports is 36% and contributes 45% to the manufactured output. The sector provides employment to over 8 crore people engaged in over 3.6 crore units, producing more than 6,000 products.

IV. CONCLUSION

It can be finally conclude that although government is continuously supporting the MSMEs to grow. At the present situation considering the exposure level of the entrepreneurs in the country should focus on the lending of banks which are one of the traditional and trusted ways to finance the business. In this scenario bank MSME advances is a blessing in disguise because is not only concentrating on different categories in order to uplift and strengthen India to move on the path of strong economic development. From the present study it can be conclude that the financial assistance provided by the bank to various MSMEs is commendable and worthwhile

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