

# Schemes for Financing Micro, Small and Medium Enterprises

## Background

The Small Scale Industries Sector, redefined since 2006 as the Micro Small and Medium Enterprises Sector has played a seminal role in the growth of the Industrial and Services Sectors in India. MSMEs have contributed significantly to employment generation, balanced regional development, export promotion, development of a vast ancillary base for large scale industries and above all creation of opportunities for weaker sections of society and women leading to their empowerment, which is essential for achieving an inclusive growth.

The revised definition of the sector is shown below:

Type of Enterprise	Investment in Plant and Machinery	
	Manufacturing Enterprises	Service Enterprises
<b>Micro</b>	Up to Rs. 25 lakh	Up to Rs. 10 lakh
<b>Small</b>	Rs. 25 lakh to Rs. 5 crore	Rs. 10 lakh to Rs. 2 crore
<b>Medium</b>	Rs. 5 crore to Rs. 10 crore	Rs. 2 crore to Rs. 5 crore

The Ministry of MSMEs addresses the issues and concerns relating to the MSME sector at the national level through the formulation of policies and schemes which are implemented by the organizations coming under its purview.

The Ministry is assisted in the implementation of its policies and programs by apex organizations like Small Industries Development Organisation (SIDO), National Small Industries Corporation (NSIC), Small Industries Development Bank of India (SIDBI), National Commission for Enterprises in the Unorganised Sector (NCEUS) and National Entrepreneurship Development Institutes (EDIs). The Office of the Development Commissioner for MSMEs which comes directly under the Ministry of MSMEs, operates a number of promotional and developmental schemes on behalf of the Ministry. Some of the Financing Schemes operated by SIDO, NSIC and SIDBI are described below:

### 1. Credit Linked Capital Subsidy Scheme for Technology upgradation

This scheme aims at facilitating technology up gradation among MSME units including tiny, khadi and village and coir industries.

The Types of units to be covered under the Scheme are:

- Existing MSME units registered with the State Directorate of Industries which upgrade their existing plant and machinery with state-of-the-art technology with or without expansion
- New MSME units which are registered with the State Directorate of Industries and which have set up their facilities only with the appropriate eligible and proven technology duly approved by the GTAB/TSC

The Small Industries Development Bank of India (SIDBI) and The National Bank for Agriculture and Rural Development (NABARD) act as nodal agencies for implementation of the scheme.

The Scheme is being operated by selected commercial banks.

Under the Scheme a 15% capital subsidy is given to the units which have raised institutional finance for induction of well established and improved technologies in the specified sub-sectors /products approved under the scheme. The ceiling on loan amount for availing the benefit under the scheme is Rs. 100 lakh.

### 2. Credit Guarantee Scheme See [www.cgtmse.in](http://www.cgtmse.in)

The credit facilities which are eligible to be covered under the scheme are both term loans and working capital facility up to Rs.100 lakh (Rs 1.0 cr.) per borrowing unit. The loan is extended without any collateral security or third party guarantee, to a new or existing micro or small enterprise.

The loans are guaranteed by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSEs). The scheme provides to the banks and other financing institutions, the required comfort for providing credit to start-ups on the basis of the merit of the project rather than simply availability of collaterals. Loans under the scheme carry zero per cent risk weight /provision for the bank for the guaranteed portion.

The loans are given to both new and existing enterprises through specified institutions called Member Lending Institutions (MLIs) which include Public Sector/Private Sector/Foreign Banks, Regional Rural Banks, Small Industries Development Bank (SIDBI) and National Small Industries Corporation (NSIC)

The extent of guarantee provided by the Trust to various sub-segments of the Micro and Small Enterprises sector is seen in the chart below:

#### **GUARANTEES**

Category	Maximum extent of Guarantee where credit facility is		
	Upto Rs.5 lakh	Above Rs.5 lakh upto Rs. 50 lakh	Above Rs.50 lakh upto Rs.100 lakh
Micro Enterprises	85% of the amount in default subject to a maximum of Rs.4.25 lakh	75% / Rs. 37.50 lakh	Rs.37.50 lakh plus 50% of amount in default above Rs.50 lakh subject to overall ceiling of Rs.62.50 lakh
Women entrepreneurs/ Units located in North East Region (incl. Sikkim) other than credit facility upto Rs. 5 lakh to micro enterprises	80% of the amount in default subject to a maximum of Rs.40 lakh		Rs.40 lakh plus 50% of amount in default above Rs.50 lakh subject to overall ceiling of Rs.65 lakh
All other categories of borrowers	75% / Rs. 37.50 lakh		Rs. 37.50 lakh plus 50% of amount in default above Rs. 50 lakh subject to overall ceiling of Rs. 62.50 lakh

In case of default by the borrowing units, the Trust which stands guarantee up to 75% (or higher as the case may be) of the loan amount, pays off the agreed amount to the lending institution. The guarantee cover is higher at 85% for more vulnerable sectors like Micro enterprises with a loan limit of Rs. 5.0 lakh

### **3. Participation in the International Exhibitions/ Fairs under MSME Market Development Assistance Scheme for Micro, Small and Medium Manufacturing Enterprises and Small Exporters**

#### **The Scheme is operated by SIDO and NSIC**

The objective of the scheme is to encourage Micro and Small manufacturers and exporters in their efforts at tapping and developing overseas markets, increase participation of representatives of small/ micro manufacturing enterprises at International Trade Fairs/ Exhibitions, to enhance exports from the small/ micro manufacturing enterprises

For participation in international exhibitions and Trade Fairs, Govt. of India will reimburse 25% to 85% of air fare by economy class, depending on the size of the unit i.e. Micro, Small or Medium and 25% to 75% of space rental charges to enterprises in the General category. For Women/SC/ST Entrepreneurs and Entrepreneurs from North Eastern Region, Govt. of India will reimburse 50 to 95% of space rent and economy class air fare. The total subsidy on air fare & space rental charges will be restricted to Rs.1.25 lakh per unit.

Some of the other schemes operated by NSIC for both new and existing units are:

i) Term loans for acquiring machinery and equipment up to a maximum limit of Rs. 5 lakh, ii) Consortia marketing to help MSEs by securing bulk orders from leading large purchasers, iii) Finance for raw material procurement for a period of 90 days along with benefits of bulk purchases and cash discounts, iv) Facilities for exports with NSIC being a leading Export House and v) Exhibitions and Trade Fairs to showcase MSME products and services.

NSIC has recently launched a web portal to facilitate exposure of SMEs in the Indian and overseas markets. The aim of this B2B portal which is in 10 languages is to reveal the potential of SME products and services and showcase these in the world market. At the same time SMEs can look for buyers, sellers and tenders over a huge database of companies and catalogues. The portal's e-commerce enables SMEs to order products on-line from other SMEs in the world.

#### **4. Schemes of Small Industries Development Bank of India (SIDBI)**

SIDBI has devised a range of flexible and innovative credit products for the various sub-segments of the MSE sector and also extends equity support to growth oriented SME units. SIDBI extends direct financial assistance through its six zonal offices and over 75 branch offices. Refinance assistance is canalized through Banks (Public sector, Private sector, Foreign and Regional Rural Banks) and State Financial Corporations and State Industrial Development Corporations.

SIDBI's financial assistance is categorized into the following broad groups:

1. Direct Finance
2. Bills finance
3. Refinance
4. International Finance
5. Micro Finance
6. Risk Capital

##### **1. Direct Finance - Schemes**

##### **a) Direct Credit Scheme**

Eligible Borrowers under the scheme are:

- i] New or existing SSI units.
- ii] SSI units graduating to medium scale and
- iii] Service sector units with an overall project cost not exceeding Rs. 25 crore

In the medium scale sector the eligible borrowers are:

- i] New or existing medium sector enterprises, and
- ii] Service sector units with an overall project cost above Rs. 25 crore and upto Rs. 250 crore with Bank's assistance not exceeding Rs. 50 crore

Term loans are given in rupee or foreign currency for setting up of new units and expansion, modernization, diversification and technology up gradation of existing units.

##### **b) Marketing Assistance Scheme**

Term loans are granted to MSEs for marketing of their products. The loan amount is normally not below Rs.10 lakh if obtained directly from SIDBI. The Debt : Equity ratio is normally not more than 2:1

### **c) Vendor Development Scheme**

The scheme is for assistance to vendors of OEMs and other large corporates. The vendors could be SMEs in the manufacturing or service sector. Assistance is extended through term loans for expansion/modernization of SMEs and through invoice/bill discounting facility for working capital requirements. SIDBI enters into MoU with large corporates, PSUs and MNCs having a good SME vendor base for this scheme.

### **d) SME IT Loans**

SIDBI and Intel have come together with a first-of-its kind initiative to help SMEs set-up or step-up IT in their business.. Called SMEITLOANS, it provides an easy access for SMEs to get both the finance and the technology to adopt IT, especially since the loan is available for hardware, software, installations and service. Finance is available from Rs. 5.0 lakh to Rs. 25 lakh. Interest charged is 11.5% p.a. on a diminishing balance basis. Visit [www.smeitloans.com](http://www.smeitloans.com) for more details.

## **2. Bills Discounting Scheme.**

Under the bills discounting scheme, medium and short term finance is given to purchasers/sellers of equipment, machinery, components and parts, one of which should be in the SSI/SME sector or an eligible service sector unit including those in the construction and transportation sector. Bills discounting scheme ensures timely payment to units

## **3. Refinance through Banks and SFCs**

Refinance is given through banks, State Finance Corporations (SFCs) and (SIDCs) for setting up new small scale units or expansion, modernization, diversification etc. of existing units and for all other activities eligible for assistance under the service sector. Service sector activities include professional practice/consultancy ventures, tourism related activities / hospitals / nursing homes / polyclinics / hotels / restaurants / marketing and industrial infrastructural projects. SIDBI provides long term credit (Refinance) to banks, State Level Financial Institutions and State Level Industrial Development Institutions for loans given by them to MSMEs. Cost of project under Refinance Assistance in respect of service sector units should not exceed Rs.20 cr. for banks. The project cost limit for SFCs/SIDCs is lower

## **4. International Finance**

The schemes covered under this head are Pre-shipment Credit, Post-shipment Credit, Foreign Currency Term Loans, Opening of Foreign Letters of Credit and Booking of Forward Contracts

Pre-shipment credit is given to SMEs in USD or Euro or in rupees. The period of credit is maximum 180 days. Margin is minimum 10% and maximum 25%. Rate of interest is not more than 0.75% over 6 month LIBOR.

Post-shipment credit is given in foreign currency to SME units/Export/Trading House for sourcing their requirements from SMEs. Finance is given for sourcing requirements up to Rs. 1.0 cr. Rate of interest for export bills financing is same as pre-shipment credit. For post-shipment credit it is as per RBI guidelines.

Foreign currency Term Loans are also given for setting up new projects as well as expansion, diversification and technology up gradation. Repayment is maximum within five years. The interest rate is 3.5 to 4 % above 6 month LIBOR.

## **5. Marketing Fund for Women**

The assistance under the Fund is available to women entrepreneurs and organizations involved in marketing of products manufactured by women entrepreneurs to increase their reach, both in

domestic and international markets. Finance from the Fund is given to marketing related service providers either organizations or units in the corporate / co-operative / NGO sectors which are providing support services like internet, trade related information, advertising, marketing research, warehousing, common testing centres, etc. to enterprises owned and managed by women.

## **6. Risk Capital to MSMEs**

SIDBI has set up the 'SIDBI Foundation for Risk Capital for MSMEs' under which it has evolved new products and mechanisms for providing risk capital to MSMEs in different size groups and different industry segments. Some of the products introduced are equity and equity like instruments and mezzanine instruments like optionally convertible debt and subordinate debt for MSMEs. Apart from direct funding by SIDBI, various delivery channels like Banks, VC funds, etc. would be used for providing risk capital to MSMEs

### **Financial Assistance Schemes of Zoroastrian Co-operative Bank Ltd.**

#### **1. SPECIAL MICRO FINANCE SCHEME FOR YOUNG ENTREPRENEURS**

For financing young entrepreneurs to set up new business/service/profession and for acquiring equipments, machinery, furniture, etc.

Term Loan up to maximum Rs.10.0 lakh per borrower.

Repayment spread over a maximum period of 60 months by way of fixed EMIs,

The principal assets financed by the Bank will be taken as prime security.

Collateral security/guarantee will be waived as a special case.

Margin will also be fixed on case to case basis. Rate of interest will vary and maximum will be 18% p.a. depending on merits of each case.

#### **2. ZOR-BIZ SCHEME**

This scheme is for combined limit of Overdraft for 12 months or withdrawal against effect/cheque purchased or Mortgage Loan repayable in 36 months. Submission of financial/stock/debtor statements waived.

Maximum finance upto Rs. 10.00 lakh on security of equitable mortgage of property.

Margin-50% of the value of the security.

#### **3. ZOR-PRO SCHEME**

This is a special loan scheme for helping professionals for financing on relaxed terms for vehicles, equipments, premises, furniture and fixtures, etc. Special concessions allowed are, no processing charges, no prepayment charges, only one guarantor, interest at 0.50% lower than the normal rate. Loan amount ranging from 75% to 90% of the invoice value depending on assets to be acquired.

#### **4. ZOR-MOBED SCHEME**

Special scheme for Mobeds for purchase of vehicles, consumer items, etc. Special concessions under this scheme are no processing fees or prepayment charges or guarantors.

Repayment period is extended by 1 year compared with normal repayment period.

The schemes are subject to changes as and when made by the Bank.

For detailed information/clarification, the prospective clients can approach Zoroastrian Co-operative Bank Ltd. or contact Mr. Tehmasp Bharucha on phones 9422004707 or 66661010.